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Legislative Audit Division

State of Montana

Report to the Legislature

March 2002

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2001

Montana State University (All Campuses)

This report contains 13 recommendations to the university. Major issues addressed in this report include:

- Inadequate procedures for collecting bad debts.
- Weaknesses in control over cash.
- Weak control over accounting for fixed assets.
- Improperly classifying $1.6 million of indirect cost recoveries as restricted.

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Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, was issued on March 30, 2000. The Single Audit Report for the two fiscal years ended June 30, 2001, will be issued by March 31, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

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March 2002

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the financial-compliance audit of the Montana State University (all campuses) for the two fiscal years ended June 30, 2001. This audit report includes recommendations related to improving bad debt collection procedures, improving control over cash, improving control over student accounts receivable and classifying $1.6 million of indirect cost recovery money as restricted rather than unrestricted.

We thank the president and university staff for their assistance and cooperation during the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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Legislative Audit Division

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 2001

Montana State University (All Campuses)

Members of the audit staff involved in this audit were Laurie Barrett, Jeane Carstensen-Garrett, Chris G. Darragh, Laurie H. Evans, Wayne D. Guazzo, Cindy S. Jorgenson, Brenda Kedish, Hollie Koehler, Angela Lang, Amber Long, Laura L. Norris, Alexa O'Dell, Paul J. O'Loughlin, and Joyce Weber.

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Montana State University – All Campuses

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Terry Roark, Interim President – through 11/00
Rolf Groseth, MSU System Coordinator
Virginia Key, Internal Auditor

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Jody Hellegaard, Director of Fiscal Affairs – through 6/00

Montana State University – Great Falls College of Technology

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Associate Dean – through 6/01
Willard Weaver, Dean – through 7/01
Mary Ellen Baukol, Assistant Dean for Business and Finance – effective 3/00
Ed Binkley, Controller – effective 6/00

Montana State University All Campuses

We performed a financial-compliance audit of the Montana State University, all campuses, for the two fiscal years ended June 30, 2001. The report contains 13 numbered recommendations addressing areas where the Montana State University can improve its financial accountability and its compliance with state and federal laws and regulations. The report contains three recommendations (#1, #2, and #3) that discuss concerns over accounts receivable.

Two recommendations (#4, and #5) address the university's control over cash and timeliness of deposits.

One recommendation (#7) is a concern related to the university's accounting for Plant Funds.

Four recommendations (#8, #9, #10, and #13) discuss issues related to the university's compliance with state and federal laws and regulations.

Three recommendations (#6, #11, and #12) discuss concerns related to processing of travel advances, payroll controls, and accountability for equipment, library books, and intangible assets.

We issued an unqualified opinion on the financial statements for each campus affiliated with the Montana State University for fiscal years 1999-00 and 2000-01. This means the reader may rely on the presented financial information.

The listing below serves as a means of summarizing the recommendations contained in the report, the university's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the university implement additional collection procedures for accounts receivable at MSU-Bozeman. 9

University Response: Concur. See page D-4.

Recommendation #2

We recommend the university reconcile its student accounts receivable detail records to the general ledger account balance at MSU-Bozeman. 10

University Response: Concur. See page D-4.

Recommendation #3

We recommend the university improve the timeliness of processing bills for grants and contracts accounts receivable on the MSU-Bozeman campus. 11

University Response: Concur. See page D-4.

Recommendation #4

We recommend the university continue to strengthen internal control at cash collection points at MSU-Bozeman. 14

University Response: Concur. See page D-4.

Recommendation #5

We recommend the university enforce deposit requirements at MSU-Bozeman departments. 14

University Response: Concur. See page D-5.

Recommendation #6

We recommend the university enforce established procedures at MSU-Bozeman to ensure travel advances are reconciled with travel expense vouchers and cleared in a timely manner. 15

University Response: Concur. See page D-5.

Recommendation #7

We recommend the university continue to document and implement an appropriate control system at MSU-Bozeman designed to ensure the timely and accurate recording of all plant fund activity on the accounting records and financial statements in accordance with state law. 17

University Response: Concur. See page D-5.

Recommendation #8

We recommend the university ensure appropriate personnel at MSU-Bozeman read the compliance report for its Perkins Loan Program and take appropriate action on any reported instances of non-compliance with federal regulations.................... 18

University Response: Concur. See page D-6.

Recommendation #9

We recommend the university establish procedures at MSU-Billings to ensure suspected thefts are reported in a timely manner as required by law... 18

University Response: Concur. See page D-6.

Recommendation #10

We recommend the university establish procedures to ensure social security taxes are properly withheld from the wages of student employees at the MSU-Billings and MSU-Northern campuses.. 19

University Response: Concur. See page D-6.

Recommendation #11

We recommend the university continue to strengthen internal control over payroll at the MSU-Northern campus to reduce the risk of error. 20

University Response: Concur. See page D-7.

Recommendation #12

We recommend the university establish procedures to ensure:

A. MSU-Northern accurately accounts for equipment purchases on its property records.

B. MSU-Bozeman performs a physical inventory over equipment in a timely manner.

C. MSU-Billings and MSU-Northern campuses properly reduce library book valuations for books removed from circulation.

D. MSU-Billings properly reduce its intangible asset valuation for obsolete software... 23

University Response: Concur. See page D-7.

Recommendation #13

We recommend the university establish procedures to ensure indirect cost recoveries are properly recorded by the MSU-Bozeman campus as required by law... 24

University Response: Concur. See page D-7.

Introduction

Audit Objectives

We performed a financial-compliance audit of Montana State University (all campuses) for the two fiscal years ended June 30, 2001. The objectives of the audit were to:

1. Determine if the university complied with applicable laws and regulations.
2. Make recommendations for improvements in the internal and management controls of the university.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the financial statements present fairly the financial position and results of operations of each of the university's campuses for the two fiscal years ended June 30, 2001.

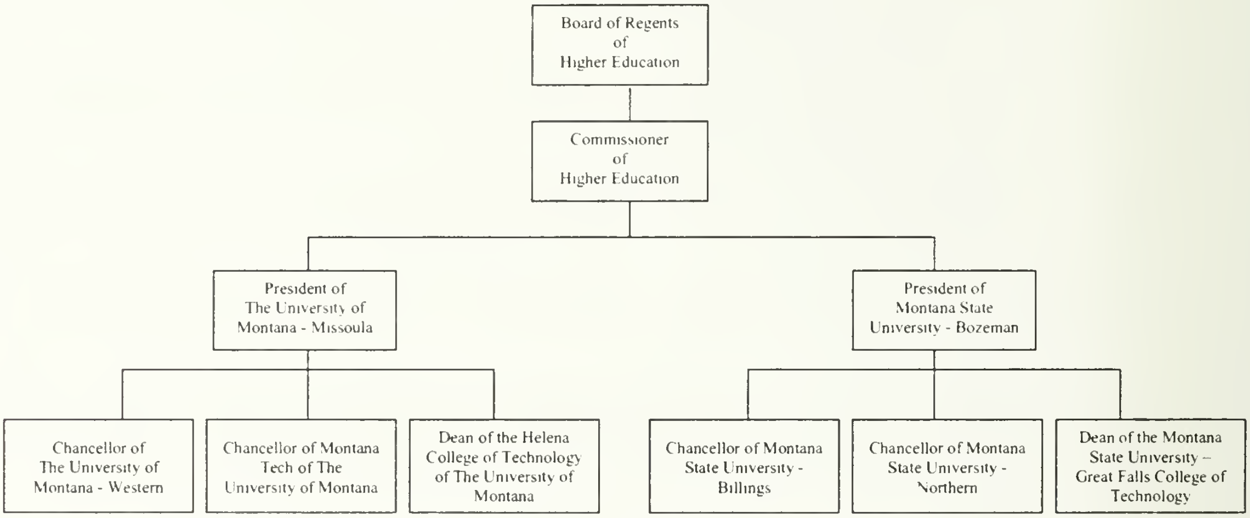
In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation. Other areas of concern deemed not to have a significant effect on the successful operation of university programs are not specifically included in the report, but have been discussed with management.

Background

The Board of Regents of Higher Education approved the current Montana University System structure in January 1994. The following chart illustrates the organization of the Montana University System.

Figure 1

Montana University System Organization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Chancellor of Montana Tech of The University of Montana
Dean of the Helena College of Technology of The University of Montana
Chancellor of Montana State University - Billings
Chancellor of Montana State University - Northern
Dean of the Montana State University – Great Falls College of Technology

Source: Compiled by the Legislative Audit Division from university information.

Montana State University consists of four campuses:

- Montana State University – Bozeman (MSU-Bozeman)
- Montana State University – Billings (MSU-Billings)
- Montana State University-Northern at Havre and Great Falls (MSU-Northern)
- Montana State University Great Falls College of Technology (MSU GF-COT)

All campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The four campuses of Montana State University provide a diversity of undergraduate and graduate academic and two-year vocational/technical programs to students.

Montana State University reported employee FTE (full-time equivalent positions) of 3,757.75 for fiscal year 2001. Contract faculty positions were 1,163.24 FTE employees. The following table shows reported fiscal year 2001 FTE employees by campus and type.

Table 1

Montana State University
Full-Time Equivalent Employees
Fiscal Year 2001

Agency	Contract Faculty	Contract Administrative	Contract Professional	Classified	Graduate Assistants	Part-Time & Other	Total
MSU – Bozeman	640.40	50.75	260.25	930.38	178.00	389.60	2449.38
MSU – Billings	191.04	25.61	50.48	197.67	5.60	53.89	524.29
MSU - Northern	88.77	13.52	39.77	74.32	0.48	42.05	258.91
MSU - College of Tech, Great Falls	59.06	3.00	9.75	44.20		0.55	116.56
Agricultural Experiment Station	83.12	0.65	39.05	89.34	11.28	21.05	244.49
Extension Service	97.80	1.00	8.02	37.65		12.64	157.11
Fire Services Training School	3.05	0.61		3.25		0.10	7.01
Total	1163.24	95.14	407.32	1376.81	195.36	519.88	3757.75

Source: Office of Commissioner of Higher Education "MUS Operating Budgets 2001-2002" Schedule 18

University System Current Funds include appropriated moneys consisting of state General Funds, millage, tuition and fees, and interest earnings. Current Funds also include designated, auxiliary and restricted activity which is not appropriated. Allocations of the Montana University System state General Fund and millage appropriations to Montana State University are based upon the anticipated number of resident students and the cost of educating students. Personnel from the Commissioner of Higher Education's office indicate the General Fund support per resident student is based on a university system analysis of faculty salaries in states with similar per capita income, the academic program offerings of the university, the necessary support expenditures (e.g. Academic

Support, Student Services, Institutional Support, Plant Operations and Maintenance), and the proportion of the cost of education to be paid by resident students. The commissioner's office indicated in fiscal year 2001, resident students paid tuition and fees which amounted to 31 percent of the anticipated cost of education.

Montana State University-Bozeman

The MSU-Bozeman campus was founded in February 1893 as the Agricultural College of the State of Montana. The university is a land-grant institution, authorized by the Morrill Act of 1862, and receives part of its support from land-grant income. The campus offers four-year undergraduate programs along with master's and doctoral graduate programs. It includes the colleges of Agriculture, Arts and Architecture, Business, Education, Health and Human Development, Engineering, Letters and Science, Nursing and Graduate Studies. Also included as part of the Bozeman campus are the Extension Service, the Agricultural Experiment Stations, and the Fire Services Training School which have facilities located in or near cities or towns throughout Montana.

Montana State University-Billings

MSU-Billings, established in 1927, consists of five colleges: the College of Arts and Sciences; the College of Business; the College of Education and Human Services; the College of Technology; and the College of Professional Studies and Lifelong Learning. MSU-Billings offers a full complement of one-year and two-year certificate programs, associate degrees, and bachelor's and master's degrees, as well as pre-professional academic offerings in a number of fields.

Montana State University-Northern

MSU-Northern is a regional, multipurpose educational center, serving students who seek both a technical and liberal arts education. MSU-Northern offers courses at two locations, the campus in Havre and facilities in Great Falls. Northern offers associate, bachelor's, and master's degrees. A master's degree program is offered in education, with options in counseling and development, elementary education, vocational education, and general science.

Montana State University-Great Falls College of Technology

GF-COT was established in 1969 and offers instruction leading to certificates in one-year programs and associate of applied science degrees in two-year programs in vocational-technical trades and industry. Programs include practical nursing, office/secretarial, interior design technology, computer and information sciences, various health-related programs, auto body repair and refinishing, and business management/entrepreneurship.

Prior Audit Recommendations

Our office performed a financial-compliance audit of MSU-Bozeman, MSU-Billings, and MSU-Northern for the two fiscal years ending June 30, 1999. The university concurred with all 14 of the numbered recommendations contained in the report. Of these recommendations, seven have been implemented, six have been partially implemented, and one has not been implemented. Issues related to improving controls over cash, see page 11; accounts receivable, see page 9; timely deposits, see page 14; payroll controls, see page 19; and theft notification, see page 18; are discussed further in this report.

AUDIT ISSUES

Findings and Recommendations

Inadequate Procedures for Collecting Accounts Receivable

MSU-Bozeman does not have adequate procedures for collecting accounts receivable that are older than one year. In the prior audit report we recommended the university initiate additional collection procedures for these accounts receivable. Based on our work we found the recommendation has not been implemented.

MSU-Bozeman has not been actively pursuing former students who owe tuition and fees to the university from past semesters. We noted the campus business office places a hold on students' transcripts and diplomas and send the accounts to the Department of Revenue for tax offset. The university should consider establishing procedures such as sending letters to students requesting payment of delinquent amounts owed. The university could use collection agencies to assist in the collection process.

In November 1999, MSU-Bozeman accounts receivable older than one year amounted to $1,022,000. In the subsequent 17 months, the university collected $172,596 of those accounts receivable. As of June 30, 2001, the accounts receivable balance related to prior fiscal years totaled $1,840,211.

Business office personnel initially said that in the past they did not have the staff resources required to actively pursue the older accounts receivable. We noted MSU-Bozeman recently increased its business office staff and in November 2001, MSU officials prepared a memo documenting proposed new collection procedures for accounts receivable. We reviewed the proposed new collection procedures and noted that, when properly implemented, the procedures should significantly enhance collections of accounts receivable.

Recommendation #1
We recommend the university implement additional collection procedures for accounts receivable at MSU-Bozeman.

Student Accounts Receivable

MSU-Bozeman does not have procedures to ensure the university account balance for student accounts receivable equals its listing of amounts owed by students. The account balance and the sum of amounts owed by each student should be equal if the student accounts receivable system is in balance. Without a timely reconciliation of the account balance on the general ledger to the detailed listing, errors like the one discussed below may go undetected.

In January 2001, we noted there were differences between the general ledger account balance and the detail listing of amounts owed. At the end of fiscal year 2000-01 the university's general ledger balance for student accounts receivable exceeded the total on the detailed listing of amounts students owed by $2,323,000. Between then and November 2001, university personnel have put forth significant effort to determine the cause of the account imbalance, but to date they have found reasons for only $1 million of the $2.3 million. As a result, the university's General Operating Subfund balance on the accounting records was overstated by $2.3 million. University officials adjusted accounts receivable on the financial statements for fiscal years 1999-00 and 2000-01 downward by that amount and applied $500,000 it found during the reconciliation to a reserve for uncollectable accounts receivable.

In our prior audit report we recommended the university implement controls to detect and correct errors in accounts receivable records at MSU-Bozeman. Some improvements in controls have been made to address the specific instances mentioned in the prior audit report. However, without a timely, periodic reconciliation of the general ledger account balance to the detailed records, the control system is not adequate to detect and prevent errors in accounts receivable.

Recommendation #2
We recommend the university reconcile its student accounts receivable detail records to the general ledger account balance at MSU-Bozeman.

Accounts Receivable for Grants and Contracts

MSU-Bozeman grants and contracts office personnel indicate, since the implementation of the Banner accounting system on July 1, 1999, the Bozeman campus has not had an automated grant and contract account billing system. The system used prior to Banner is no longer usable and the campus has been unable to install an integrated grants billing module.

Currently grants and contracts personnel are processing bills manually and are continuing to fall behind on billing for grants and contracts. At June 30, 2001, the MSU-Bozeman accounts receivable balance was approximately $16 million. The director of grants and contracts indicated a normal amount of accounts receivable should be between $5 and $9 million based on her comparison with other colleges and universities. The director said MSU-Bozeman is clearly operating outside of the normal and acceptable range.

Because the university has been unable to collect and invest these moneys, it loses investment earnings on any uncollected amount above what is normal. We estimate the university lost between $450,000 and $700,000 in investment revenue in fiscal year 2000-01. MSU-Bozeman officials indicated they would have a plan to facilitate timely billing of accounts receivable by the end of December 2001.

Recommendation #3
We recommend the university improve the timeliness of processing bills for grants and contracts accounts receivable on the MSU-Bozeman campus.

Controls Over Cash Collections

The central cashiering activity is a component of the MSU-Bozeman business office that processes much of the cash collected by the campus. Cash collected by various campus organizations is deposited with the central cashiering activity prior to being deposited in a state treasury bank account. University officials indicate a significant amount of cash flows through the central cashiering activity annually. Because of the amount of cash collected, it is critical that the university maintain strong internal controls at the central cashiering activity and other campus cash collection points to ensure money is properly accounted for and safeguarded against theft.

Suggestions for Improved Controls

We noted the university has improved control over the central cashiering activity since the prior audit. When we reviewed current operations and controls at MSU-Bozeman, we noted several additional procedures the university could establish to enhance control at the central cashiering activity

The university should consider:

- Requiring the bank to call the supervisor of the central cashiering activity rather than the cashier who prepared the deposit when there is a problem with a deposit. Currently, when there is an error or discrepancy in a deposit, the bank contacts the cashier who prepared the deposit rather than the cashier's supervisor to reconcile the concern. If differences in deposits are found at the bank, management should first be notified and then the supervisor can work with the cashier who prepared the deposit to reconcile any discrepancy.
- Establishing a policy requiring background checks on applicants applying for work in the central cashiering activity. We noted MSU-Bozeman does not conduct background checks of individuals applying for work as cashiers. If the campus performed background checks it could reduce the likelihood of hiring an employee who has experienced difficulties working with money in the past.
- Installing new locks on the cash drawer used by cashiers. We noted the cashiers are located in a secure area which is accessible by only a limited number of business office personnel. The cashiers cannot lock their cash drawer when they leave their workstations because the keys to the lock have been lost. Even though the cashier drawers are located in a secure facility, the university could enhance cashiers' accountability for errors and cash discrepancies if the drawers are locked by the individual cashiers when they leave their station.

MSU-Bozeman officials indicated they will evaluate and consider any suggestions which would improve control over cash.

Other Cashiering Activities on Campus

During our audit we reviewed several cash collect points on the MSU-Bozeman campus and identified the following weaknesses in controls.

Although at some of these locations the cash transaction activity is relatively low, we noted internal control weaknesses at three of the eight locations we reviewed.

At the intramural administrative support office for the Associated Students of MSU (ASMSU) we noted an employee reconciles cash and receipts in a cash register till to the cash register tape of transactions, and submits a daily deposit to the MSU-Bozeman's central cashiering activity. Because no other employee compares amounts actually deposited to the reconciliation, the opportunity exists for money to be removed from the daily deposit and not be detected by university management. Cash control at MSU can be improved by requiring someone other than the cashier to review the daily cash register reconciliation for propriety and agree the deposit amount to the deposit receipt returned from the business office.

Staff at residence halls collect cash for various activities such as computer or television hook-ups, room charges, damages, and blanket rentals. When a residence hall attendant collects money a receipt is issued to the student. However, employees at the Residence Life Office do not reconcile daily cash received to amounts recorded in the receipt books for the day. Because daily cash received is not reconciled to receipt book amounts, the opportunity exists for moneys to be misused or stolen and not be detected by university management.

We noted the MSU-Bozeman business office did not have a record of a cash change fund kept at the SOB Barn Outdoor Recreation office. The SOB Barn rents equipment such as tents, backpacks, and other outdoor recreation gear. Also, for a fee, it offers outdoor trips to students and faculty, and provides instruction on various outdoor activities. After university personnel reviewed the cashiering activity they determined the SOB Barn maintains a $100 cash change fund. The business office should maintain accounting control over cash change funds on campus.

Recommendation #4
We recommend the university continue to strengthen internal control at cash collection points at MSU-Bozeman.

Timeliness of Deposits

Section 17-6-105, MCA, requires entities to make deposits each day when there is $100 or more in cash or $500 or more in cash and checks, or at least weekly regardless of the amount collected. The MSU-Bozeman campus has improved procedures to monitor and enforce deposit requirements at campus departments since the last audit. The central cashiering activity personnel indicated they are required to notify departments in writing when there are instances of non-compliance with deposit laws. A copy of the notification is forwarded to the university internal auditor.

In April 2001, internal audit found untimely deposits from 7 of 55 departments tested during a review of the MSU-Bozeman central cashiering activity and notified department heads in writing. The cashiers said they had not been diligent in notifying departments of untimely deposits. The personnel said in the last six months they only sent out one notification of untimely deposits. Holding excess cash and checks at collection points increases the risk of loss or theft.

Recommendation #5
We recommend the university enforce deposit requirements at MSU-Bozeman departments.

Travel Advances

During our review of control procedures related to travel expense forms and travel advances issued by the business office we noted the following weakness in the control procedures:

The business office does not ensure personnel submit travel expense forms within 90 days of travel as required by university and state policy. We reviewed university travel records and found 65 individuals who submitted travel expense forms beyond the 90-day time period. The return dates indicate that travel had been completed as much as 11 months prior.

MSU-Bozeman personnel indicated the university has established procedures to ensure travel advances are reconciled to expense vouchers and cleared in a timely manner, but some employees are not following the procedures.

Recommendation #6
We recommend the university enforce established procedures at MSU-Bozeman to ensure travel advances are reconciled with travel expense vouchers and cleared in a timely manner.

Plant Fund Accounting

During our audit period we found MSU-Bozeman did not have an adequate control system in place to ensure that Plant Fund financial activity is properly recorded on its accounting system and accurately reported on the financial statements. Incomplete or inaccurate accounting information negatively impacts the university's preparation of its financial statements, the Department of Administration's preparation of the state's Comprehensive Annual Financial Report (CAFR), and the quality of the information on the university's accounting records. In our audits of the state's fiscal year 1999-00 CAFR and MSU-Bozeman fiscal year 1999-00 financial statements, we found financial reporting responsibilities were not coordinated well between the treasurer and the controller. This lack of adequate coordination contributed to inconsistent reporting of plant fund financial information between the CAFR, the accounting records, and MSU-Bozeman's financial statements.

We noted Plant Fund accounting errors in fiscal year 1999-00 caused the university's Net Investment in Plant Fund to be understated by $32.2 million on the draft fiscal year 1999-00 financial statements we received in May 2001. The following construction activity was not properly recorded on the state's accounting records for MSU-Bozeman in fiscal year 1999-00.

▸ Underground steam tunnel and condensate.	$ 5,764,127
▸ Construction work in progress for the paint	

booth, the library, the record storage facility and various heating upgrades.	$ 426,136
▶ Additions or renovations to the following buildings: Engineering & Physical Science, Ag Bioscience, Stadium, Fieldhouse, and the Tennis Bubble.	$ 13,755,952
▶ Ag Bioscience building construction which occurred prior to fiscal year 1999-00.	$ 5,801,789
▶ Other prior year adjustments to the Plant Fund accounting records for unrecorded property or equipment.	$ 6,467,987
Total	$32,215,991

The only significant error in fiscal year 2000-01 was a construction project recorded in an improper subfund of the Plant Fund. MSU-Bozeman recorded approximately $1 million of construction work in progress in the Investment in Plant Fund rather than in the Unexpended Plant Fund or Renewal and Replacement Plant Fund as required by state accounting policy. Although MSU personnel adjusted the financial statements for this error and the errors discussed above, state law requires MSU to post all necessary transactions to the accounting system by fiscal year end to ensure its financial activity is recorded in accordance with generally accepted accounting principles.

Because we noted fewer errors in the second year of the audit period, we believe MSU-Bozeman has already started implementing procedures to improve controls, including improvements in coordination between the treasurer and the controller. However, to ensure the continuity of these controls, we believe the control procedures should be formalized and documented. In addition, the treasurer and the controller should continue to coordinate throughout the year to ensure all plant activity is properly recorded on the accounting records by fiscal year end in compliance with state law and to facilitate the efficient preparation of the university's financial statements.

Recommendation #7
We recommend the university continue to document and implement an appropriate control system at MSU-Bozeman designed to ensure the timely and accurate recording of all Plant Fund activity on the accounting records and financial statements in accordance with state law.

Control Over Perkins Loan Accounts

MSU-Bozeman should strengthen controls over a third party contractor to ensure $14.4 million in Perkins student loan collections are processed in accordance with federal regulations. The university contracts with a third party to collect loan repayments from students and account for the proceeds. Federal regulations require the university to establish internal controls to ensure student loan collections under the Perkins Loan Program are properly processed.

We noted MSU-Bozeman financial aid personnel do not read reports prepared by a private CPA firm that documents whether the university's Perkins loan collections are processed in accordance with federal regulations. Because federal regulations hold the university responsible for the loan collection process and accounting for student loans, even when these activities are contracted for through a third party, university personnel should read the report and take appropriate action if instances of noncompliance are reported.

Although we obtained a copy of the third party compliance report and did not note any significant noncompliance with federal regulations, establishing control over Perkins Loan Program collections and accounting is a university responsibility. University personnel indicated that in the past, the compliance reports have only been requested for the university's auditors, and then the reports are normally filed without being read by university personnel.

Recommendation #8
We recommend the university ensure appropriate personnel at MSU-Bozeman read the compliance report for its Perkins Loan Program and take appropriate action on any reported instances of non-compliance with federal regulations.

Notification of Theft

Section 5-13-309(3), MCA, requires the head of each state agency to immediately notify both the attorney general and the legislative auditor in writing upon the discovery of any theft, actual or suspected, involving state moneys or property under his control or for which he is responsible. We identified two instances at the MSU-Billings campus where this notification did not occur timely. In one instance notification did not occur for 9 months after a theft occurred. In the other instance, notification was approximately 15 months after the occurrence.

According to MSU-Billings personnel, the instances involved the suspected theft of a laptop computer and a student who was suspected of misusing cash purchase orders. No one has been charged in the case of the laptop computer, and it has not been recovered. The student suspected of misusing cash purchase orders has been referred by the campus to local authorities. The student has not been pursued by local authorities and the $860 has not been recovered.

An MSU-Billings official indicated campus personnel wanted to be certain a theft was committed before notification occurred. Notification of theft was a concern also addressed in the university's prior audit report.

Recommendation #9
We recommend the university establish procedures at MSU-Billings to ensure suspected thefts are reported in a timely manner as required by law.

Social Security Withholding

The MSU-Billings and MSU-Northern campuses did not have sufficient controls to ensure social security taxes were properly withheld from wages paid to student employees. Federal regulations allow student employees who are enrolled for at least six credit hours at colleges or universities an exemption from social security taxes. When a student's credit hours drop below six, or if they work for the college during the summer break and are not attending summer school, the student loses exempt status and the university must withhold the taxes from the employee's payroll. The federal regulations hold the university liable for back taxes if it fails to properly apply the exemption.

At both the Billings and Northern campuses, we noted students enrolled for less than six credit hours that did not have social security taxes withheld from their pay. In addition the campuses did not pay the employer share of the tax for these employees. MSU personnel indicated the errors occurred after the accounting system conversion to Banner.

MSU-Billings payroll personnel said the campus reviewed the exempt status of all of its student employees and found it should have withheld the tax for several of its employees. MSU-Billings paid $7,801 to the federal government to correct the errors. However, MSU-Northern personnel have not reviewed the exempt status of student employees, nor have they determined a dollar amount owed to the federal government for the incorrect withholding.

Recommendation #10
We recommend the university establish procedures to ensure social security taxes are properly withheld from the wages of student employees at the MSU-Billings and MSU-Northern campuses.

Payroll Controls

At MSU-Northern, we reviewed the payroll system and noted the following two areas where the campus could improve procedures over the processing of payroll.

MSU-Northern should establish procedures to notify its payroll office each semester when classes are cancelled, so that appropriate adjustments can be made to faculty salaries. We noted two MSU-Northern faculty members were each paid $300 per month for each of three consecutive months of teaching classes even though the classes had been cancelled. The campus's departments detected the errors more than three months after the classes were cancelled. MSU-Northern should implement appropriate procedures to ensure its payroll personnel receive a list of cancelled classes each semester and inquire if one is not received.

MSU-Northern has one employee who inputs, reviews, and approves payroll transactions. Critical elements of effective internal control include segregation of incompatible duties, independent review of transactions prior to payment, and review of processed transactions which have values outside of expected ranges. According to university personnel, there are not enough employees working in the payroll area to properly segregate the payroll duties. This concern was also addressed in the prior audit after several payroll errors were noted. When we reviewed the implementation status of our prior recommendation, it was not implemented. MSU-Northern officials said it has now been implemented.

Recommendation #11

We recommend the university continue to strengthen internal control over payroll at the MSU-Northern campus to reduce the risk of error.

Accountability Over Equipment Inventory, Library Books and Intangible Assets

State accounting policy requires each state agency to capitalize and report on the state's accounting records all owned land, buildings, equipment and intangible items that cost $5,000 or more. In addition, the value of library books is required to be accounted for as a long-lived asset for colleges and universities. State agencies are required to maintain a subsidiary detail record identifying the cost of each property and equipment item. Accurate subsidiary accounting records are essential for the protection of these assets. We noted the following concerns related to property and equipment items.

Property and Equipment Inventory at MSU-Northern

During the past two fiscal years, MSU-Northern has not maintained appropriate subsidiary detail ledgers for its land, buildings and capitalized equipment. MSU-Northern personnel indicated the equipment items purchased in the past two years have been included on the property accounting system based upon invoices for equipment purchases. We noted that at least one item, a $10,000 van, was not added to the property records. Personnel said they are aware of the need to have a subsidiary detail ledger over the long-lived assets and said they will have one in place by the end of fiscal year 2002.

Physical Inventory of Equipment at MSU-Bozeman

MSU-Bozeman is not performing a physical inventory of fixed assets in a timely manner. State policy requires a physical inventory of fixed assets at least once every two years. We noted a physical inventory of some departments has not been done since January 1994. University personnel said that for a time they were unable to produce equipment-listing reports by department from the Banner accounting system. The reports are now available, but property management personnel have not had the time to verify the accuracy of the equipment inventories at department locations. They hope to begin physical inventory counts in January 2002.

Library Book Valuation for MSU-Billings & MSU-Northern

Each fiscal year all campuses of MSU are recording an increase in the library book asset valuation. The increase is determined by the total purchases of library books and materials made during the year. In addition, the Bozeman campus determines the amount of library material removed from circulation and applies an industry standard valuation for the items removed.

MSU-Billings and MSU-Northern are not reducing the library asset value for items removed from circulation. Library personnel were familiar with the industry standard used by the Bozeman library and believe they can use this information to record a decrease for deleted library books in the future.

The library book valuation recorded on the accounting records for MSU-Billings and MSU-Northern as of June 30, 2001 is $5,287,230 and $1,303,815, respectively. These amounts are overstated by indeterminate amounts. However, we believe the amounts are overstated by less than 10 percent of the total value of the library book collection.

MSU fiscal and library personnel will need to work together to develop a methodology to determine an accurate library book valuation. Once a new valuation is established, college personnel should record both library book purchases and deletions on an annual basis.

Intangible Assets on the Accounting Records for MSU-Billings

MSU-Billings records long-lived intangible fixed assets on its accounting records. Computer software and software license agreements make up the $ 942,872 intangible asset balance as of June 30, 2001. The intangible asset account is increased based on the amount paid for software invoices. Increases to the intangible assets over the last three fiscal years were $247,167. The intangible asset account is not reduced for obsolete software. Typically software has a short life span. There is no subsidiary detail ledger for intangible assets in order to know what software items are recorded.

We believe the asset value is overstated by the value of obsolete software or software no longer in existence. MSU-Billings personnel should develop a methodology to record a reasonable amount for the intangible assets.

Recommendation #12

We recommend the university establish procedures to ensure:

A. MSU-Northern accurately accounts for equipment purchases on its property records.

B. MSU-Bozeman performs a physical inventory over equipment in a timely manner.

C. MSU-Billings and MSU-Northern campuses properly reduce library book valuations for books removed from circulation.

D. MSU-Billings properly reduce its intangible asset valuation for obsolete software.

Unrestricted Indirect Cost Reimbursement Moneys Reported as Restricted Funds

In fiscal year 1999-00, MSU-Bozeman spent $600,000 of indirect cost recoveries in its Restricted Fund rather than transferring the moneys to the Designated Subfund as required by law. In addition, at June 30, 2000, the campus reported on the state's accounting system $1,003,864 of indirect cost recoveries as restricted fund balance rather than unrestricted. Indirect cost recoveries (IDC) are amounts paid to the university by federal and private sponsors of restricted grants and contracts to reimburse the campus for institutional support services the campus provided to grant and contract activities. Indirect cost reimbursements can be used by the university for any purpose, so they must account for it as unrestricted moneys. Section 20-25-427, MCA, requires the IDC's to be accounted for in the Designated Subfund of the Unrestricted Fund.

By retaining the IDC's in the Restricted Fund the MSU-Bozeman campus could cause readers of its financial statements to mistakenly believe the $1,003,864 is unavailable for purposes other than those dictated by sponsors of grants and contracts. However, the Board of Regents or university management may use the moneys for any purpose that benefits the university. University personnel indicated the IDC moneys should have been transferred to the campus's Designated Subfund and classified as unrestricted fund balance.

Recommendation #13

We recommend the university establish procedures to ensure indirect cost recoveries are properly recorded by the MSU-Bozeman campus as required by law.

FINANCIAL SECTION

MSU — Bozeman

Independent Auditor's Report & Montana State University-Bozeman Financial Statements

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet of Montana State University-Bozeman, a component unit of the state of Montana, as of June 30, 2001, and the related Statements of Changes in Fund Balances and Statements of Current Funds Revenues, Expenditures, and Other Changes for each of the two fiscal years ended June 30, 2000 and 2001. The information contained in these financial statements is the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana State University-Bozeman as of June 30, 2001, and its changes in fund balances and the current funds revenues, expenditures, and other changes for each of the two fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

January 7, 2002

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MONTANA STATE UNIVERSITY-BOZEMAN, COMPONENT UNIT OF THE STATE OF MONTANA
BALANCE SHEET
AS OF JUNE 30, 2001

ASSETS		LIABILITIES AND FUND BALANCES		
CURRENT FUNDS:		CURRENT FUNDS:		
Unrestricted:		Unrestricted:		
General operating:		General operating:		
Cash	$ 3,656,737	Accounts payable and accrued liabilities		$ 1,288,032
Accounts receivable	2,935,265	Due to other fund groups		5,042,027
Due from other fund groups	210,341	Deferred revenue		2,453,750
Cash equivalents-STIP (Note 4)	600,213	Compensated absences payable (Note 7)		11,864,006
Prepaid expenditures	595,280	Fund balance-reserved (Note 1)		107,856
		Fund balance-unreserved (Note 1)		(12,757,835)
Total general operating	7,997,836			7,997,836
Designated:		Designated:		
Cash	7,525,084	Accounts payable and accrued liabilities		1,595,016
Accounts receivable	2,024,312	Due to other fund groups		1,709,492
Due from other fund groups	11,188,431	Deferred revenue		82,964
Cash equivalents-STIP (Note 4)	3,575,079	Compensated absences payable (Note 7)		3,324,655
Inventories	502,397	Fund balance-reserved		15,118
		Fund balance-unreserved (Note 1)		18,088,058
Total designated	24,815,303			24,815,303
Auxiliary enterprises:		Auxiliary enterprises:		
Cash	849,460	Accounts payable and accrued liabilities		729,247
Accounts receivable	299,832	Due to other fund groups		830,969
Due from other fund groups	52,688	Deferred revenue		172,577
Cash equivalents-STIP (Note 4)	10,665,194	Compensated absences payable (Note 7)		1,153,521
Inventories	441,737	Fund balance-unreserved (Note 1)		9,422,597
Total auxiliary enterprises	12,308,911			12,308,911
Total unrestricted	45,122,050			45,122,050
Restricted:		Restricted:		
Cash	363,026	Accounts payable and accrued liabilities		1,381,176
Accounts receivable	17,430,117	Due to other fund groups		12,757,004
Due from other fund groups	1,934	Compensated absences payable (Note 7)		274,697
Cash equivalents-STIP (Note 4)	1,179,233	Fund balance-unreserved (Note 1)		4,690,785
Other assets	129,352			
Total restricted	19,103,662			19,103,662
Total current funds	$ 64,225,712			$ 64,225,712
STUDENT LOAN FUNDS:		STUDENT LOAN FUNDS:		
Cash	$ 204,311	Accounts payable		$ 3,053
Due from other fund groups	200	Fund balances:		
Loan receivable - less allowance for bad debts	15,581,824	U.S. Government grants refundable	11,481,969	
Cash equivalents-STIP (Note 4)	1,474,800	University funds	5,646,525	
		Private gifts	129,588	17,258,082
Total student loan funds	$ 17,261,135			$ 17,261,135

See notes to financial statements

MONTANA STATE UNIVERSITY-BOZEMAN, COMPONENT UNIT OF THE STATE OF MONTANA
BALANCE SHEET (continued)
AS OF JUNE 30, 2001

ASSETS		LIABILITIES AND FUND BALANCES	
ENDOWMENT FUNDS:		ENDOWMENT FUNDS:	
Cash	$ 705	Fund balance	$ 1,221,632
Property held by others	309,527		
Cash equivalents-STIP (Note 4)	911,400		
Total endowment funds	$ 1,221,632		$ 1,221,632
PLANT FUNDS:		PLANT FUNDS:	
Unexpended:		Unexpended:	
Cash and cash equivalent	$ 1,137,160	Accounts payable and accrued expenditures	$ 188,970
Accounts receivable	35,477	Due to other fund groups	70,380
Due from other fund groups	67,946	Deferred revenue	104,629
Cash equivalent-STIP (Note 4)	1,821,901	Compensated absences (Note 7)	33
Construction in progress	121,835	Fund balance-unreserved (Note 1)	2,820,307
Total unexpended	3,184,319		3,184,319
Renewals and replacements:		Renewals and replacements:	
Cash and cash equivalents	4,189,784	Accounts payable and accrued expenditures	289,923
Accounts receivable	24,984	Due to other fund groups	197,954
Due from other fund groups	20,393	Fund balance-unreserved (Note 1)	13,320,185
Investments (Note 1)	2,129,091		
Cash equivalents-STIP (Note 4)	6,520,615		
Construction in progress	923,195		
Total renewals and replacements	13,808,062		13,808,062
Retirement of indebtedness:		Retirement of indebetness:	
Cash and cash equivalents	241,278	Accounts payable and accrued expenditures	467,154
Accounts receivable	75,182	Due to other fund groups	37,958
Due from other fund groups	1,860	Deferred revenue	368,595
Cash equivalents-STIP (Note 4)	3,753,998	Fund balance	3,198,611
Total retirement of indebtedness	4,072,318		4,072,318
Investment in plant:		Investment in plant:	
Land and land improvements	26,725,957	Bonds payable (Note 5)	74,346,720
Buildings (including construction in progress)	204,504,704	Other payables: notes	76,171
Equipment	72,245,743	Other payables: installment loan	2,815,634
Livestock	3,058,267	Other payables: leases	226,101
Library books	39,892,580	Net investment in plant	269,340,122
Intangible assets	377,497		
Total investment in plant	346,804,748		346,804,748
Total plant funds	$ 367,869,447		$ 367,869,447
AGENCY FUNDS:		AGENCY FUNDS:	
Cash	$ 323,887	Accounts payable and accrued liabilities	$ 9,054,203
Accounts receivable	2,873,314	Due to other fund groups	329,024
Prepaid expenses	250,000	Deposits held in custody for others	3,593,189
Due from other fund groups	9,431,015		
Cash equivalent-STIP (Note 4)	98,200		
Total agency funds	$ 12,976,416		$ 12,976,416

See notes to financial statements

MONTANA STATE UNIVERSITY-BOZEMAN, COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2001

	Current Funds						Plant Funds			
	Unrestricted									
	General Operating	Designated	Auxiliary Enterprises	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Revenue and other additions:										
Current funds revenue	$ 104,167,127	$ 36,715,620	$ 26,211,425	$ 103,358,366						
Federal capital contribution	-	-	-	-	$ 215,645					
University capital contribution	-	-	-	-	89,892					
Private capital contribution	-	-	-	-	-	$ 398	$ 300			
Interest on loans receivable	-	-	-	-	356,776	-	-			
Late and collection fees	-	-	-	-	15,998	-	-			
Student fees	-	-	-	-	-	-	1,520,631		$ 4,815,033	
Investment income	-	-	-	-	74,486	1,248	358,066	$ 565,374	296,007	
Land grant income (Note 2)	-	-	-	-	-	-	-	-	1,183,960	
Debt retirement (Note 4)	-	-	-	-	-	-	-	-	-	$ 3,775,018
Plant additions	-	-	-	-	-	-	-	-	-	16,101,518
Activities income	-	-	-	-	-	-	174,496	45,563	227,340	-
Other	-	-	-	-	-	40	1,714,772	681,251	406,401	-
Total revenue and other additions	104,167,127	36,715,620	26,211,425	103,358,366	752,797	1,686	3,768,265	1,292,188	6,928,741	19,876,536
Expenditures and other deductions:										
Current funds expenditures	102,671,660	32,084,317	21,281,975	104,397,469	-	-	-	-	-	-
Loan cancellations	-	-	-	-	77,995	-	-	-	-	-
Expended for plant facilities	-	-	-	-	-	-	2,787,287	2,453,959	-	-
Move equity to NIIP	-	-	-	-	-	-	1,903,277	319,631	-	-
Interest on debt	-	-	-	-	-	-	-	-	3,647,761	-
Bonds payable	-	-	-	-	-	-	-	-	3,065,000	-
Installment loan debt	-	-	-	-	-	-	-	-	345,551	1,533,899
Leases	-	-	-	-	-	-	-	-	-	219,517
Disposal of plant assets	-	-	-	-	-	-	-	-	-	5,278,592
Other	-	-	-	-	2,795	-	64,772	6,261	263,471	-
Total expenditures and other deductions	102,671,660	32,084,317	21,281,975	104,397,469	80,790	-	4,755,336	2,779,851	7,321,783	7,032,008
Transfers among funds additions - (deductions):										
Mandatory-	-	-	(2,359,500)	-	-	-	(1,215,000)	-	3,574,500	-
Voluntary-	(1,287,601)	(1,324,813)	(1,627,290)	(173,193)	-	-	(170,164)	7,381,378	(2,798,317)	-
Total transfers	(1,287,601)	(1,324,813)	(3,986,790)	(173,193)	-	-	(1,385,164)	7,381,378	776,183	-
Net increase (decrease) in fund balance	207,866	3,306,490	942,660	(1,212,296)	672,007	1,686	(2,372,235)	5,893,715	383,141	12,844,528
Fund balances at beginning of year as previously reported	(12,447,824)	14,643,426	8,416,354	5,716,959	16,649,174	1,207,045	5,113,387	7,239,340	2,672,312	256,154,245
Adjustments:										
Prior year revenues	(26,978)	441,625	72,787	91,781	44	15,965	2,351	50,988	153,618	341,349
Prior year expenditures	(383,043)	(288,365)	(9,204)	94,341	(63,143)	(3,064)	76,804	136,143	(10,460)	-
Total adjustments	(410,021)	153,260	63,583	186,122	(63,099)	12,901	79,155	187,131	143,158	341,349
Fund balances at beginning of year as adjusted	(12,857,845)	14,796,686	8,479,937	5,903,081	16,586,075	1,219,946	5,192,542	7,426,471	2,815,470	256,495,594
Fund balances at end of year	$ (12,649,979)	$ 18,103,176	$ 9,422,597	$ 4,690,785	$ 17,258,082	$ 1,221,632	$ 2,820,307	$ 13,320,186	$ 3,198,611	$ 269,340,122

MONTANA STATE UNIVERSITY-BOZEMAN, COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
YEAR ENDED JUNE 30, 2001

	Unrestricted				
	General Operating	Designated	Auxiliary Enterprises	Restricted	Total
Revenues:					
Tuition and fees	$ 42,188,924	$ 2,639,191	$ 2,865,738	$ 30,000	$ 47,723,853
Federal appropriations	4,031,316	-	-	-	4,031,316
State appropriations	54,890,404	2,734,758	-	168,505	57,793,667
Federal grants and contracts	249,761	38,066	-	72,477,404	72,765,231
State grants and contracts	-	706,246	-	6,200,154	6,906,400
Private grants and contracts	-	27,864	-	12,988,743	13,016,607
Indirect cost recoveries	-	8,908,529	-	-	8,908,529
Gifts	-	449,677	-	2,678,931	3,128,608
Other sources	1,684,662	2,019,032	1,789,750	350,516	5,843,960
Sales and service	1,122,060	19,192,257	21,555,937	83,869	41,954,123
Total revenues	104,167,127	36,715,620	26,211,425	94,978,122	262,072,294
Expenditures and mandatory transfers:					
Education and general					
Instruction	46,103,871	2,382,407	-	623,778	49,110,056
Research	11,762,157	8,795,886	-	38,806,693	59,364,736
Public service	7,143,878	4,595,971	-	12,187,900	23,927,749
Academic support	9,919,535	5,352,012	-	141,673	15,413,220
Student services	6,778,425	6,101,872	-	996,418	13,876,715
Institutional support	8,040,225	4,411,453	-	1,686,037	14,137,715
Operation and maintenance of plant	9,564,802	6,263	-	12,329	9,583,394
Scholarships and fellowships	3,358,767	436,676	-	40,473,956	44,269,399
Other	-	1,777	-	-	1,777
Education and general expenditures	102,671,660	32,084,317	-	94,928,784	229,684,761
Auxiliary enterprises:					
Expenditures	-	-	21,281,975	-	21,281,975
Mandatory transfers	-	-	2,359,500	-	2,359,500
Total auxiliary	-	-	23,641,475	-	23,641,475
Total expenditures and mandatory transfers	102,671,660	32,084,317	23,641,475	94,928,784	253,326,236
Other transfers and additions (deductions):					
Excess (deficiency) of restricted receipts over transfers to revenue	-	-	-	(1,088,441)	(1,088,441)
Transfers	(1,287,601)	(1,324,813)	(1,627,290)	(173,193)	(4,412,897)
Net increase (decrease) in fund balance	$ 207,866	$ 3,306,490	$ 942,660	$ (1,212,296)	$ 3,244,720

See notes to financial statements

MONTANA STATE UNIVERSITY-BOZEMAN, COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2000

	Current Funds						Plant Funds			
	Unrestricted									
	General Operating	Designated	Auxiliary Enterprises	Restricted	Loan Funds	Endowment and similar funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Revenue and other additions:										
Current funds revenue	$ 101,493,731	$ 29,679,369	$ 25,172,046	$ 100,273,078						
Federal capital contribution	-	-	-	-	$ 212,695					
University capital contribution	-	-	-	-	75,465					
Private capital contribution	-	-	-	-	-	$ 293		$ 132,452	$ 70,066	
Interest on loans receivable	-	-	-	-	272,622	-		-	-	
Late and collection fees	-	-	-	-	105,204	-		-	-	
Student fees	-	-	-	-	-	-	$ 1,440,259	-	3,026,951	
Investment income	-	-	-	-	62,704	6,646	756,278	395,938	352,737	
Land grant income (Note 2)	-	-	-	-	-	-	-	-	1,030,079	
Bond proceeds	-	-	-	-	-	-	-	-	283,578	
Loan proceeds	-	-	-	-	-	-	537,502	232,000	-	
Debt retirement (Note 4)	-	-	-	-	-	-	-	-	-	$ 3,177,643
Plant additions	-	-	-	-	-	-	-	-	-	34,088,553
Activities income	-	-	-	-	-	-	98,072	31,517	2,614,595	-
Other	-	-	-	-	11,357	-	196,437	136,130	32,163	-
Total revenue and other additions	101,493,731	29,679,369	25,172,046	100,273,078	740,047	6,939	3,028,548	928,037	7,410,169	37,266,196
Expenditures and other deductions:										
Current funds expenditures	100,474,051	29,068,388	19,920,788	97,922,889	-	-	-	-	-	-
Loan cancellations	-	-	-	-	85,241	-	-	-	-	-
Expended for plant facilities	-	-	-	-	-	-	5,280,251	3,427,346	-	-
Move equity to NIIP	-	-	-	-	-	-	3,881,615	-	-	20,002,663
Interest on debt	-	-	-	-	-	-	-	-	3,773,019	-
Bonds payable	-	-	-	-	-	-	-	-	2,699,071	-
Installment loan debt	-	-	-	-	-	-	-	-	34,719	1,126,283
Leases	-	-	-	-	-	-	-	-	-	176,376
Disposal of plant assets	-	-	-	-	-	-	-	-	-	1,783,344
Other	-	-	-	-	-	-	-	-	158,786	-
Total expenditures and other deductions	100,474,051	29,068,388	19,920,788	97,922,889	85,241	-	9,161,866	3,427,346	6,665,595	23,088,666
Transfers among funds - additions (deductions)										
Mandatory	-	-	(2,825,000)	-	-	-	(117,962)	(38,318)	2,981,280	-
Voluntary:	(1,712,633)	1,605,481	(483,220)	(634,213)		2,500	881,840	2,881,034	(2,540,789)	
Total transfers	(1,712,633)	1,605,481	(3,308,220)	(634,213)	-	2,500	763,878	2,842,716	440,491	-
Net increase (decrease) in fund balance	(692,953)	2,216,462	1,943,038	1,715,976	654,806	9,439	(5,369,440)	343,407	1,185,065	14,177,530
Fund balances at beginning of year as previously reported	(10,050,721)	12,484,601	6,977,393	4,636,267	15,918,434	1,197,606	9,535,539	7,071,049	1,593,676	246,862,910
Adjustments:										
Prior year revenues and other additions	(741,791)	20,513	15,762	(79,603)	32,019	-	200,106	(55,065)	(3,862)	(193,071)
Prior year expenditures and other deductior	(962,359)	(78,150)	(519,839)	(555,681)	43,915	-	607,149	19,982	(102,567)	(4,693,124)
Fund reclassification	-	-	-	-	-	-	140,033	(140,033)	-	-
Total adjustments	(1,704,150)	(57,637)	(504,077)	(635,284)	75,934	-	947,288	(175,116)	(106,429)	(4,886,195)
Fund balances at beginning of year as adjusted	(11,754,871)	12,426,964	6,473,316	4,000,983	15,994,368	1,197,606	10,482,827	6,895,933	1,487,247	241,976,715
Fund balances at end of year	$ (12,447,824)	$ 14,643,426	$ 8,416,354	$ 5,716,959	$ 16,649,174	$ 1,207,045	$ 5,113,387	$ 7,239,340	$ 2,672,312	$ 256,154,245

See notes to financial statements.

MONTANA STATE UNIVERSITY-BOZEMAN, COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
YEAR ENDED JUNE 30, 2000

	Unrestricted				
	General Operating	Designated	Auxiliary Enterprises	Restricted	Total
Revenues:					
Tuition and fees	$ 41,088,776	$ 2,683,474	$ 2,802,517	$ 60,000	$ 46,634,767
Federal appropriations	4,216,158	-	-	-	4,216,158
State appropriations	52,544,840	-	-	210,940	52,755,780
Federal grants and contracts	282,907	32,808	-	66,269,965	66,585,680
State grants and contracts	-	261,245	-	4,329,887	4,591,132
Private grants, and contracts	-	274,747	-	16,478,210	16,752,957
Indirect cost recoveries	-	8,711,123		602,983	9,314,106
Gifts	-	538,493	-	1,539,167	2,077,660
Other sources	2,235,646	1,717,411	1,561,398	282,418	5,796,873
Sales and service	1,125,404	15,460,068	20,808,131	-	37,393,603
Total revenues	101,493,731	29,679,369	25,172,046	89,773,570	246,118,716
Expenditures and mandatory transfers:					
Education and general					
Instruction	45,655,527	2,402,929	-	637,487	48,695,943
Research	12,548,527	8,858,164	-	34,823,306	56,229,997
Public service	6,358,702	4,394,652	-	11,215,069	21,968,423
Academic support	9,308,742	4,061,639	-	176,372	13,546,753
Student services	6,480,221	5,206,858	-	855,239	12,542,318
Institutional support	7,225,325	3,657,537	-	2,652,177	13,535,039
Operation and maintenance of plant	9,505,260	13,162	-	55,558	9,573,980
Scholarships and fellowships	3,391,747	473,447	-	39,320,254	43,185,448
Other	-	-	-	38,108	38,108
Education and general expenditures	100,474,051	29,068,388	-	89,773,570	219,316,009
Auxiliary enterprises:					
Expenditures	-	-	19,920,788	-	19,920,788
Mandatory transfers	-	-	2,825,000	-	2,825,000
Total auxiliary	-	-	22,745,788	-	22,745,788
Total expenditures and mandatory transfers	100,474,051	29,068,388	22,745,788	89,773,570	242,061,797
Other transfers and additions (deductions):					
Excess of restricted receipts over transfers to revenue	-	-	-	2,350,189	2,350,189
Transfers	(1,712,633)	1,605,481	(483,220)	(634,213)	(1,224,585)
Net increase (decrease) in fund balance	$ (692,953)	$ 2,216,462	$ 1,943,038	$ 1,715,976	$ 5,182,523

See notes to financial statements

1. Summary of significant accounting policies

Montana State University-Bozeman:

Montana State University-Bozeman, Montana Agricultural Experiment Station, Montana Extension Service, Fire Service Training School, and MSU College of Technology-Great Falls are related through common management; however, they are separate and distinct agencies as reported on the Statewide Accounting, Budget, and Human Resource System (SABHRS). Each receives separate federal and state appropriations. Montana State University-Bozeman's financial information is included as a component unit in the State of Montana Comprehensive Annual Financial Report (CAFR).

In January 1994, the Montana Board of Regents of Higher Education approved the restructuring of the Montana University System. As part of the restructuring, effective July 1, 1994, Montana State University (the University) gained administrative oversight for Montana State University-Billings; Montana State University-Northern; MSU College of Technology-Billings; and MSU-College of Technology-Great Falls. The accompanying financial statements exclude activity for Montana State University-Billings and MSU College of Technology-Billings, which are reported as Montana State University-Billings, and Montana State University-Northern, which is also reported separately.

Financial statements:

The accompanying financial statements have been prepared in accordance with the standards of accounting and reporting as described by the National Association of College and University Business Officers (NACUBO). In accordance with Governmental Accounting Standard No. 15, "Governmental College and University Accounting and Reporting Models," the University has adopted the American Institute of Certified Public Accountants' (AICPA) "College Guide Model".

The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period.

Fund balances for unrestricted general operating funds include the unfunded liability of $11,864,006 for compensated absences payable as of June 30, 2001.

Fund accounting:

The accounts of the University are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed upon their use. Separate accounts are maintained for each fund; however, accounts with common characteristics are combined into fund groups and reflected as such in the accompanying financial statements. The common characteristics of the funds contained in the various fund groups are as follows:

Current funds: The current funds group includes economic resources expendable in performing the primary objectives of the University, including Instruction, Research and Public Service. The current funds group has two basic distinct sub-groups: unrestricted funds, which have no expenditure restrictions; and restricted funds, which must be expended in accordance with restrictions imposed by an external party. Unrestricted current funds comprise the following:

- General Operating - utilized for general operations in performing the primary objectives of the University.
- Designated - utilized for educational-related service activities; these funds are separately classified to accumulate and distinguish the costs of specialized service function areas.
- Auxiliary Enterprises - utilized in providing essential on-campus services, primarily to students, faculty, and staff.

Student loan funds: The resources from this group of funds are available to students to aid in financing their education. Private and University sources provide funds for the loans, with the majority of the funds provided by the Federal Government.

Endowment funds: Endowment funds' principal generally must be maintained in perpetuity and invested for the purpose of producing income, which may be spent according to donors' wishes.

Plant funds: Plant funds are separated into four distinct self-balancing sub-groups:

- Unexpended plant - utilized for the acquisition of long-term institutional assets.
- Renewal and replacement - utilized for long-term institutional asset maintenance.
- Retirement of indebtedness - utilized for interest and debt retirement.
- Investment in plant - denotes the cost of long-term institutional assets and related liabilities.

Agency: The University acts in a custodial or fiscal agent capacity for individual students, faculty, staff or qualified organizations, and records such balances in an agency fund.

Inventories: Inventories, which consist mainly of food and operating supplies, are valued at cost (first-in, first-out method).

Plant and equipment:

Livestock is carried at current market value with any difference from the prior year values recorded in the plant fund. Livestock is purchased and raised for experimental purposes; the revenue from livestock sales is recorded in the general operating fund, except when a breeding animal is sold and is expected to be replaced, in which case sales proceeds are recorded in designated funds and used for replacements as needed.

Depreciation: No provision has been made for depreciation of plant facilities in accordance with generally accepted accounting principles for colleges and universities.

Allowances for bad debts:

Provision for bad debts has been recorded as institutional support expense based on a percentage of outstanding receivables. Write-offs are recorded in the year in which accounts are deemed uncollectable, and the related provision for bad debts is adjusted accordingly.

Allocated for encumbrances:

The University records encumbrances of general operating funds as expenditures in conformance with state accounting policy.

At June 30, 2001, the University had encumbered $107,856 of general operating funds and $15,118 of designated funds that are not included in expenditures in the accompanying financial statements. The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and that liabilities include only the unpaid amounts associated with such transactions. Fund balances are reserved in current funds for the encumbered funds.

Unearned tuition and fees: Summer school tuition and fee revenues are deferred at June 30, 2001 and will be recorded as revenue in the succeeding fiscal year.

2. Changes in accounting and reporting

Investment reporting at fair value:

In accordance with Statement No. 31 of the Governmental Accounting Standards Board ("GASB"), "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," investments maturing within one year or less at the time of purchase are recorded at amortized cost. Investments with maturities of one year or more are recorded at fair market value, which is derived from trustee statements. The difference between cost and market value of investments at June 30, 2001 was $44,359. Investment income is recorded when received. Unrealized gains of $48,545 and losses of $16,570 were recorded during the fiscal years ended June 30, 2001 and 2000, respectively.

Financial reporting

Statements No. 34 and 35 of the GASB, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments" and "Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities" are effective as of varying dates depending on an institution's size. The State of Montana, and thus the University, are required to adopt the statements for the fiscal year ending June 30, 2002. The adoption of these standards will significantly impact the financial reporting and recording for the University, and changes to beginning fund balance will be reported as a Cumulative Effect of a Change in Accounting Principle. The University is currently developing procedures to enable reporting in compliance with these statements. No dollar estimate has yet been made of the required adjustment to beginning fund balance. Prior periods will not be restated.

3. Land grant income

Montana State University benefits from two separate land grants. The first granted 90,000 acres for the University under provisions of the Morrill Act of 1862. The second, under the Enabling Act of 1889, granted an additional 50,000 acres for the University.

Under provisions of both grants, income from the sale of land and land assets must be reinvested and constitutes, along with the balance of the unsold land, a perpetual endowment fund. During January 2002, the Montana University System elected to receive timber sale revenue from trust lands generated after July 1, 2001, as distributable revenue, rather than reinvesting it. The State of Montana, Board of Land Commissioners, administers both grants and holds all endowed assets.

Investment income from the grants is currently pledged to the retirement of revenue bond indebtedness and is reported as revenue in the retirement of indebtedness fund.

4. Cash equivalents and investments

Cash equivalents, Investments and Cash Equivalents-STIP at June 30, 2001 consisted of the following:

State of Montana short-term investment pool	$30,600,633
Money market funds held by trustees in the University's name	65,897
U.S. Treasury securities held by trustees in the University's name	2,129,091
	$32,795,621

The STIP portfolio includes asset-backed securities, banker's acceptances, certificates of deposit, commercial paper, corporate and government securities, repurchase agreements, and variable-rate (floating-rate) instruments. Investments are reported at cost, which equals market value. The unit value is $1.00 per unit. STIP investments are in Risk Category 1, which includes investments that are insured or registered, securities held by the State or its agent in the State's name.

Cash and Cash Equivalents include cash on deposit and short-term investments held by the U.S. Bank Trust of Montana in the University's name (Risk Category 1). The market value of securities at June 30, 2001 was $65,897. The State requires collaterization based on the average daily cash balance.

Investments consist of U.S. Treasury Securities, which are held by the U.S. Bank Trust of Montana in the University's name. Investments are in Risk Category 1. The market value at June 30, 2001 was $2,129,091.

Under the provisions of State statutes, the Board of Investments (BOI) has a Securities Lending Authorization Agreement that authorized its custodial bank (State Street Bank and Trust) to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the BOI receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the market value of the loaned securities and maintain collateral equal to not less than 100 percent of the market value of the loaned security. The BOI retains all rights and risks of ownership during the loan period.

State Street Bank lent, on behalf of the BOI, certain securities it held as BOI's custodian and received U.S. cash, U.S. government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The BOI did not impose any restrictions on the amounts of the loans that the State Street Bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions. There were no losses resulting from a default of the borrowers or State Street Bank.

The BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the BOI's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the BOI could not determine. At June 30, 2001, the BOI had no credit risk exposure to borrowers.

5. Bonds payable

Revenue Bonds payable at June 30, 2001 are as follows:

Payable during the year ending June 30,	Interest Rate Range (%)	Series 1987 A	Series 1993 A	Series 1996 B	Series 1996 D	Series 1998 E	Series 1998 F	Total, All Series
2002	4.00 - 8.00	$140,000	$175,000	$1,770,000	$250,000	$235,000	$650,000	$3,220,000
2003	4.10 – 8.00	145,000	145,000	1,905,000	265,000	245,000	675,000	3,380,000
2004	4.15 – 8.00	-	115,000	2,055,000	270,000	255,000	700,000	3,395,000
2005	4.20 – 8.00	-	85,000	2,205,000	285,000	265,000	735,000	3,575,000
2006	4.30 – 8.00	-	55,000	2,370,000	300,000	280,000	765,000	3,770,000
2007 and thereafter	4.35 – 8.00	-	21,871,720	2,790,000	25,595,000	6,750,000	-	57,006,720
Total		$285,000	$22,446,720	$13,095,000	$26,965,000	$8,030,000	$3,525,000	$74,346,720

Debts refunded, issued, and escrowed:

Issuance of Series A 1986 Bonds, August 15, 1986 Indenture:

An original issue of $34,835,000 dated August 15, 1986, consisting of fully registered bonds without coupons, with interest rates ranging from 6.60% to 7.40%, with the principal maturing serially on November 15, 1993 through 2009, for the refunding of all bonds outstanding under the October 1, 1985 and September 1, 1985 Indentures.

Issuance of Series A 1987 Bonds, June 15, 1987 Indenture:

An original issue of $2,325,000 dated June 15, 1987, consisting of fully registered bonds without coupons, with interest rates ranging from 5.10% to 8.00%, principal maturin serially on January 1, 1988 through 2003, for the acquisition, construction, repair, remodeling, replacement, renovation, improvement, furnishing, and equipping of new and e facilities at the University.

Issuance of Series A 1993 Bonds, November 9, 1993 Indenture:

An original issue of $24,911,720.30 dated November 9, 1993, consisting of $3,055,000 of fully registered Current Interest Serial Bonds with interest rates ranging from 2.60% to 4.75%, plus $6,036,720.30 of fully registered Capital Appreciation Bonds with interest rates ranging from 5.00% to 5.20%, and the remainder of fully registered Current Interest Term Bonds maturing on November 15, 2013 through 2016. A total of $4.3 million was used to partially refund certain eligible portions of the Series B

1985 and Series A 1986 Indentures. The remainder of the proceeds was for the acquisition, construction, repair, remodeling, replacement, renovation, improvement, furnishing, and equipping of new and existing facilities at the University.

The University realized a net present value savings of $735,809 from the advance refunding. In addition, University funds totaling $14,228,313 which were freed as a result of the Series A 1993 transaction were used concurrently for the early redemption of certain Series A 1986 Bonds. This resulted in a net present value savings of $1,012,804 for the University.

Issuance of Series D 1996, August 15, 1996 Indenture:

On August 15, 1996, Montana State University, issued Series D-1996 Facilities Improvement and Refunding Revenue Bonds in the amount of $44,530,000. MSU-Billings' share of the bonds was $16,680,000 to be used for an advance refunding, construction and renovation of certain facilities, and to pay certain costs associated with the issuance of the bonds. MSU-Bozeman's share of the bonds was $27,850,000 with interest rates ranging from 3.8% to 5.375%, payable semi-annually on May and November 15 beginning November 15, 1996, and with the final maturity date of November 15, 2021. The proceeds from the sale of the bonds were used to: 1) pay the costs of acquisition, construction, renovation, improvement, furnishing, and equipping certain facilities; 2) pay the bond insurance premium; and 3) pay certain costs associated with the issuance of the bonds. The bonds are fully insured by the MBIA Insurance Corporation.

The Series D-1996 bonds (and all subsequent bonds) are payable from and secured by a parity first lien on and pledge of the Net pledged Revenues, which comprised: 1)all student building fees assessed against students attending the University; 2)net student housing system pledged revenues, after the payment of operation and maintenance expenses of such facilities: 3)a HUD debt service grant; 4)lease rentals from the Museum of the Rockies; 5)all Land Grant income; 6)student athletic fees; 7)Health & Physical Education fees; 8)Fieldhouse fees; and 9)capitalized interest and earnings on certain funds created under the Indenture.

Issuance of the Series B 1996, October 1, 1996 Indenture:

On October 1, 1996, Montana State University issued Series B-1996 Facilities Refunding Revenue Bonds in the amount of $18,995,000. The proceeds from the sale of the bonds were used to: 1) advance refund $18,440,000 of outstanding Series A-1986 bonds with interest rates ranging from 7.0% to 7.4%; 2) pay the bond insurance premium; and 3) pay certain costs associated with the issuance of the bonds. This transaction culminated a forward purchase agreement entered into in August 1993 with certain institutional investors. The new interest rates range from 5.0% to 5.5% and will be paid semi-annually on May 15 and November 15, beginning May 15, 1997.

The bond proceeds, along with other pledged revenues, were deposited into an irrevocable escrow account held by the Trustee to purchase U.S. Government securities to provide for all future debt service payments for the Series A-1986 bonds. As a result, the Series A-1986 bonds are considered to be fully and legally defeased, and the liability for those bonds has been removed from the University's financial records. For the advance refunding of the bonds, the University realized an economic gain of $1,043,736.40. The difference between the cash flows to service the old debt ($27,078,420) and the new debt ($25,648,947.31) was a reduction of $1,429,472.69. The bonds are not subject to early redemption prior to final maturity date of November 15, 2007.

Issuance of the Series E 1998, June 1, 1998 Indenture:

On June 1, 1998, Montana State University issued Series E-1998 Facilities Improvement Revenue Bonds in the amount of $8,255,000. The proceeds from the sale of the bonds were used to: 1) finance the construction, improvement, repair, replacement, expansion, renovation, furnishing, and equipping of the Reno H. Sales Stadium at the Bozeman campus; 2) pay the premiums for the municipal bond insurance policy; and 3)pay certain costs associated with the issuance of the Series E-1998 bonds.

Interest rates range from 3.9% to 5.0%, payable annually on May and November 15, commencing November 15, 1998. The bonds begin maturing on November 15, 2000, through November 15, 2021. Bonds maturing on or before November 15, 2008, are not subject to optional redemption prior to maturity. The Municipal Bond Insurance Association unconditionally and irrevocably guarantees all bonds.

Issuance of the Series F 1998, June 1, 1998 Indenture:

On June 1, 1998, Montana State University issued Series F-1998 Facilities Improvement Revenue Bonds (Information Technology Project), in the amount of $8,175,000. The proceeds from the sale of the bonds were allocated to three of the four MSU campuses, and are being accounted for in their respective Revenue Bond reports. Allocations were $5,340,000 to Bozeman and Great Falls; $2,275,000 to Billings; and $560,000 to Northern. Proceeds were used for the purchase, installation and implementation of the Banner2000 software and required equipment, training and support.

Interest rates range from 3.65% to 4.30%, payable on May 15 and November 15 each year, commencing November 15, 1998. The bonds begin maturing on November 15, 1998, through November 15, 2005. The bonds are unconditionally and irrevocably guaranteed by the Municipal Bond Insurance Association, and are not subject to optional redemption prior to maturity.

6. Retirement plans

Full-time employees of Montana State University are all members of either the Public Employees' Retirement System (PERS), the Game Wardens and Peace Officers Retirement System (GWPORS), Teacher's Retirement System (TRS) the Optional Retirement Program (ORP), Federal Employees' Retirement System (FERS) or the U.S. Civil Service Retirement System (CSRS). ORP commenced in January 1988, and is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Membership in TRS and ORP is restricted to faculty and staff with contracts under the authority of the Board of Regents. Effective July 1, 1993, ORP was made the mandatory retirement plan for new faculty and administrative staff. The Pension Benefit Obligation is not available on an individual agency basis, but is available on a statewide basis from the Montana Retirement systems or TIAA-CREF.

ORP - The ORP is a defined contribution plan. Benefits at retirement depend upon the amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Montana State University records employee/employer contributions, and remits monies to TIAA-CREF. Individuals are immediately vested with contributions.

TRS - This mandatory system was established in 1937 and is governed by Title 19, Chapter 4, MCA, as a cost-sharing multi-employer defined benefit pension plan providing retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, vocational-technical center or unit of the University System. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for accrual benefits is 1/60 times creditable service times average final compensation. Rights are vested after 5 years of creditable service, and vested employees may retire at or after age 50 and receive reduced retirement benefits. Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Teachers' Retirement Division, P.O. Box 200139, Helena, MT 59620-0139.

PERS - This mandatory system was established in 1945 and is governed by Title 19, Chapter 3, MCA, as a cost-sharing multi-employer defined pension plan providing retirement services to substantially all public employees. Benefit eligibility is age 60 with at least 5 years of service, age 65 regardless of service, or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service. Monthly retirement benefits are determined by multiplying 1/56 by the number of years of service by the final average salary. Members' rights become vested after 5 years of service. Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Public Employees' Retirement Division, P.O. Box 200131, Helena, MT 59620-0131.

GWPORS – This retirement system was established in 1963 and is governed by Title 19, Chapter 8, MCA, to provide retirement services for all persons employed as game wardens. Effective July 1, 1997, this system became the mandatory system for campus security officers employed by the Montana University System, unless they already held membership in another State retirement system. Participants are eligible to retire after completing 20 years of service and reaching age 50. Early retirement with a reduced benefit may be taken after completing 5 years of service and reaching 55 years of age. The retirement formula is 2% of the final average salary per year of service. Members' rights become vested after 5 years of service. Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Public Employees' Retirement Division, P.O. Box 200131, Helena, MT 59620-0131.

FERS - This plan commenced in 1986 and is available to Federal employees joining the Extension Service staff without a break in service. This retirement plan contains defined benefit plan components, a Basic Benefit Plan and Social Security, and a defined contribution component, the Thrift Savings Plan (TSP). Basic benefits can be received at age 55 with as little as 10 years of service, and minimum retirement benefits at age 62 with 5 years of service. The formula for basic benefits is 1% of the highest consecutive three-year-average salary multiplied by the number of years of service. At age 62, retirees are eligible for cost of living adjustments on retirement benefits. The TSP benefits at retirement depend upon the amount of employer contributions, employee voluntary contributions and investment gains and losses.

CSRS - This retirement plan is authorized under the Smith-Lever Act of 1914 as amended and is available to Federal employees joining the Extension Service staff without a break in service. CSRS is a defined benefit plan. The retirement benefits are based upon the highest consecutive three-year-average salary. Retirees are eligible for cost of living adjustments the year after retirement. Benefits can be received at age 55 with 30 years of service, age 60 with 20 years of service, or age 62 with five years of service.

Pension data for the year ended June 30, 2001 is as follows:

	PERS	TRS	ORP	CSRS	FERS	GWPORS
Covered payroll [1]	$29,808,478	$19,694,823	$44,616,041	$1,960,071	$750,467	$232,511
Total payroll	$111,750,431	$111,750,431	$111,750,431	$111,750,431	$111,750,431	$111,750,431
Employer contributions	$2,056,785	$3,135,382[2]	$2,211,171	$166,802	$80,300	$20,926
% Of covered payroll	6.900%	7.470%	4.956%	8.510%	10.700%	9.000%
Employee contributions	$2,056,785	$1,408,180	$3,142,754	$145,045	$9,006	$19,763
% Of covered payroll	6.900%	7.150%	7.044%	7.400%	1.200%	8.500%

[1] Covered payroll excludes students employed under the College Work Study programs and part-time student employees.

[2] For ORP participants, a total of $1,664,178, or 3.73%, was contributed to TRS as employer contributions to amortize past service unfunded liability in accordance with Title 19, Chapter 21, MCA.

Pension data for the year ended June 30, 2000 is as follows:

	PERS	TRS	ORP	CSRS	FERS	GWPORS
Covered payroll [1]	$28,253,551	$19,751,684	$44,252,695	$2,382,227	$679,717	$238,517
Total payroll	$108,519,718	$108,519,718	$108,519,718	$108,519,718	$108,519,718	$108,519,718
Employer contributions	$1,949,495	$2,988,893[2]	$2,043,589	$172,711	$72,735	$21,467
% Of covered payroll	6.900%	7.470%	4.956%	8.510%	10.700%	9.000%
Employee contributions	$1,949,495	$1,412,245	$3,117,160	$148,662	$7,647	$20,274
% Of covered payroll	6.900%	7.150%	7.044%	6.240%	1.130%	8.500%

[1] Covered payroll excludes students employed under the College Work Study programs and part-time student employees.

[2] For ORP participants, a total of $1,513,442, or 3.42%, was contributed to TRS as employer contributions to amortize past service unfunded liability in accordance with Title 19, Chapter 21, MCA.

Amounts contributed to retirement plans during the years ended June 30, 1999, 2000 and 2001 were equal to the required contribution each year. The amounts contributed by the University and its employees were:

	PERS	TRS	ORP	CSRS	FERS	GWPORS
1999	$3,530,782	$4,431,274	$4,361,606	$298,136	$72,929	-
2000	$3,898,990	$4,401,138	$5,160,749	$321,373	$80,383	$41,741
2001	$4,113,570	$4,543,562	$5,353,925	$311,847	$89,306	$40,689

7. Commitments and contingencies

Compensated absences payable: At December 31 of each year, employees may accumulate vacation leave up to twice the number of leave days earned annually and sick leave can be accumulated without limitation. Upon termination, the employee is paid the accumulated vacation leave and 25 percent of the accumulated sick leave. Vacation and sick leave payments are recorded as expenditures at the time they are paid to the employee. Amounts recorded as compensated absences payable include employer benefits.

Capital projects: As of June 30, 2001, the University had initiated construction on the following major capital projects:

Description	Amount Expended through June 2001	Remaining Amount Authorized	Total Expected Project Cost
Heat Plant Upgrade	$ 4,655,283	$ 218,680	$ 4,873,963
EpiCenter Project	1,456,260	2,142,446	3,598,706
Steam & Condensate Phase IV	7,497,143	616,189	8,113,332
Library Renovations	1,804,860	6,191,212	7,996,072
Roberts Hall Roof Replacement	144,230	705,770	850,000
Gaines Hall Design	-	2,000,000	2,000,000
Linfield/MT Hall Renovations	-	1,450,000	1,450,000
Animal Bioscience Facility	-	5,000,000	5,000,000
SARC Renovation	-	1,250,000	1,250,000
Total	$15,557,776	$19,574,297	$35,132,073

Capital Leases: The University reserves the right to limit the amount of expenditures associated with lease contracts without penalty when, in the sole judgment of the University, annual funding or program changes necessitate. Capital lease principal balances outstanding for various purposes and time periods total $226,101 at June 30, 2001. The annual payment requirements are as follows:

2002	$98,377
2003	63,183
2004	51,132
2005	35,986
2006	35,986
Total payments	$284,664
Less amount representing interest	(58,563)
Principal balance outstanding	$226,101

Loans and their related principal balances outstanding at June 30, 2001 are described below:

Description	Interest Rate	Matures Fiscal Year	Balance
Intercap:			
Agricultural Bioscience Building	Variable	2010	$551,044
University Printing Equipment	Variable	2002	4,062
Information Technology Center Software	Variable	2003	60,739
Information Technology Center Telephone Upgrade	Variable	2007	202,958
Athletics Stadium Sign, Scoreboard and Sound System	Variable	2006	381,994
President's Residence Renovation	Variable	2004	243,791
Information Technology Center Servers	Variable	2004	47,960
Student Weight Room	Variable	2011	384,300
Media and Theatre Arts Equipment.	Variable	2007	30,000
Land Resources & Environmental Sciences Post Equipment	Variable	2006	26,000
Software & Software Licenses	Variable	2006	361,371
Athletics Department Laundry Equipment.	Variable	2004	11,986
Sub-total, Intercap Loan Principal Outstanding			2,306,205
Norwest Bank:			
Media and Theatre Arts Equipment	5.63%	2002	9,879
Integrated Library Computer System	5.28%	2004	64,664
Sub-total, Norwest Bank Loan Principal Outstanding			74,543
GE Capital:			
Burns Telecommunication Center Computing Equipment	6.24%	2002	10,881
Library Computing Equipment	5.34%	2002	42,635
Information Technology Center Copier	5.52%	2002	4,682
University Relations Computing Equipment	4.95%	2002	1,106
Information Technology Center Smart Podiums	5.54%	2002	6,450
Library Computing Equipment	5.78%	2004	25,191
Architecture Equipment.	5.50%	2004	5,555
Sub-Total, GE Capital Loan Principal Outstanding			96,500

Description	Interest Rate	Matures Fiscal Year	Balance
Cisco Systems- Network Electronic Switching	4.10%	2005	338,385
College of Technology- Great Falls Intercap Debt- Computing Equipment	Variable	2003	76,171
Total			$2,891,804

Loan balances are repayable as follows:

Repayable during fiscal year ending June 30:	Bozeman Intercap	Norwest	Cisco	GE Capital	Great Falls Intercap	Total
2002	$ 423,627	$41,380	$79,518	$76,382	$50,109	$671,016
2003	422,776	33,163	82,812	11,250	26,062	576,063
2004	370,954	-	86,242	8,868	-	466,064
2005	313,820	-	89,813	-	-	403,634
2006	277,791	-	-	-	-	277,791
2007 and thereafter	497,237	-		-	-	497,236
Total	$2,306,205	$74,543	$338,385	$96,500	$76,171	$2,891,804

8. Affiliated Organizations

Private nonprofit organizations affiliated with the University include the MSU Alumni Association, MSU Athletic Scholarship Association, MSU Bookstore, MSU Foundation, MSU Friends of KUSM, The Museum of the Rockies, Inc., and the Research and Development Institute. These groups operate exclusively for the purposes of encouraging, promoting, and supporting educational programs, research, scholarly pursuits, and athletics at, or in connection with, the University.

The MSU Foundation provided $4,029,000 and $3,778,847 for scholarships and academic/institutional support during the years ended June 30, 2001 and 2000, respectively. MSU paid them $21,494 to rent office space in each of the two years.

The Museum of the Rockies, Inc. paid $300,000 in rent to MSU during each of the two years presented, and also provided $1,210,330 and $1,176,973 in contributions during the years ended June 30, 2001 and 2000, respectively.

Contributions from the MSU Athletic Association were $359,581 and $141,032 during the years ended June 30, 2001 and 2000, respectively.

Friends of Montana Public Television contributed $379,785 and $335,736 during the years ended June 30, 2001 and 2000, respectively.

9. Student FTE

Session	Year	Undergraduate FTEs Reported[1]	Graduate FTEs Reported[2]	Total FTEs[3]
Summer	2000	1,043	211	1,254
Fall	2000	10,290	689	10,979
Spring	2001	9,633	659	10,292
Annual[4]	2000-2001	10,483	780	11,263

[1] Undergraduate semester credit hours divided by 15.

[2] Graduate semester credit hours divided by 12.

[3] Includes both Unrestricted and Restricted funded FTEs.

[4] In accordance with the Commissioner of Higher Education's policy, annual FTE is calculated by total undergraduate credit hours divided by 30 and total graduate credit hours divided by 24.

MSU — Billings

Independent Auditor's Report & Montana State University-Billings Financial Statements

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet of Montana State University-Billings, a component of the state of Montana, as of June 30, 2001 and the related Statements of Changes in Fund Balances and Statements of Current Funds Revenues, Expenditures, and Other Changes for each of the two fiscal years ended June 30, 2000 and 2001. The information contained in these financial statements is the responsibility of Montana State University-Billings' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana State University-Billings as of June 30, 2001, and its changes in fund balances and the current funds revenues, expenditures, and other changes for the two fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 31, 2001

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MONTANA STATE UNIVERSITY - BILLINGS
(A Component Unit of the State of Montana)
BALANCE SHEET
June 30, 2001

ASSETS	
CURRENT FUNDS:	
Unrestricted:	
General Operating:	
Cash	$910,998
Due From Other Fund Groups	106,331
Accounts Receivable less Allowance for Doubtful Collections of $62,042	924,278
Prepaid Expenses	561,559
Total General Operating	**2,503,166**
Designated:	
Cash	3,090,036
Cash Equivalents (Note 2)	2,000,000
Due From Other Fund Groups	284,024
Accounts Receivable	39,337
Inventories (Note 1)	211,417
Prepaid Expenses	40,000
Total Designated	**5,664,814**
Auxiliary:	
Cash	1,214,329
Cash Equivalents (Note 2)	698,250
Due From Other Fund Groups	154,524
Accounts Receivable	120,752
Inventories (Note 1)	567,957
Prepaid Expenses	261,743
Total Auxiliary	**3,017,555**
Total Unrestricted	**11,185,535**
Restricted:	
Cash	337,514
Due from Federal Government	181,924
Due from State Government	10,412
Due From Other Fund Groups	135
Accounts Receivable	189,357
Total Restricted	**719,342**
TOTAL CURRENT FUNDS	**$11,904,877**
LOAN FUNDS:	
Cash	$91,256
Cash Equivalents (Note 2)	236,700
Accounts Receivable	15,334
Loans Receivable	2,930,570
TOTAL LOAN FUNDS	**$3,273,860**

LIABILITIES AND FUND BALANCES	
CURRENT FUNDS:	
Unrestricted:	
General Operating:	
Accounts Payable and Accrued Liabilities	$966,898
Compensated Absences Payable (Note 6)	2,290,498
Due To Other Fund Groups	327,158
Property Held In Trust	6,773
Deferred Revenue	1,086,371
Fund Balance-Unreserved	(2,174,532)
Total General Operating	**2,503,166**
Designated:	
Accounts Payable and Accrued Liabilities	386,042
Compensated Absences Payable (Note 6)	239,176
Due To Other Fund Groups	239,098
Deferred Revenue	230,467
Fund Balance-Unreserved	4,570,031
Total Designated	**5,664,814**
Auxiliary:	
Accounts Payable and Accrued Liabilities	324,684
Compensated Absences Payable (Note 6)	116,733
Deposits	65,287
Due To Other Fund Groups	178,989
Deferred Revenue	213,442
Fund Balance-Unreserved	2,118,420
Total Auxiliary	**3,017,555**
Total Unrestricted	**11,185,535**
Restricted:	
Accounts Payable and Accrued Liabilities	238,930
Due To Other Fund Groups	98,303
Fund Balance	382,109
Total Restricted	**719,342**
TOTAL CURRENT FUNDS	**$11,904,877**
LOAN FUNDS:	
Due to Other Fund Groups	3,893
Fund Balances:	
Perkins/National Direct Student Loans:	
U.S. government grants refundable less cumulative cancellations and other reductions of $246,480	2,860,663
College Contributions-Restricted	409,304
Total Fund Balances	3,269,967
TOTAL LOAN FUNDS	**$3,273,860**

The notes are an integral part of this statement.

MONTANA STATE UNIVERSITY - BILLINGS
(A Component Unit of the State of Montana)
BALANCE SHEET
June 30, 2001

ASSETS		LIABILITIES AND FUND BALANCES	
ENDOWMENT FUNDS:		**ENDOWMENT FUNDS:**	
Cash Equivalents (Note 2)	$12,400	Fund Balance-Reserved	$ 12,400
TOTAL ENDOWMENT FUNDS	**$12,400**	**TOTAL ENDOWMENT FUNDS**	**$12,400**
PLANT FUNDS:		**PLANT FUNDS:**	
Unexpended:		**Unexpended:**	
Cash	$586,975	Accounts Payable and Accrued Liabilities	$5,780
Cash Equivalents (Note 2)	174,500	Due to Other Fund Groups	404,366
Accounts Receivable	4,436	Deferred Revenue	5,494
Construction Work In Progress	100,819	Fund Balance-Unreserved	442,573
		Fund Balance-Reserved	8,517
Total Unexpended	**866,730**	**Total Unexpended**	**866,730**
Renewals and Replacements:		**Renewals and Replacements:**	
Cash	471,033	Accounts Payable and Accrued Liabilities	1,085
Cash Equivalents (Note 2)	2,610,346	Due To Other Fund Groups	17
Investments (Note 2)	369,060	Deferred Revenue	67,001
Due From Other Fund Groups	593,585	Fund Balance-Unreserved	3,346,030
Accounts Receivable	20,109	Fund Balance-Reserved	650,000
Total Renewals and Replacements	**4,064,133**	**Total Renewals and Replacements**	**4,064,133**
Retirement of Indebtedness:		**Retirement of Indebtedness:**	
Cash	1,775	Accrued Bond Interest Payable	113,848
Cash Equivalents (Note 2)	32,575	Fund Balance-Restricted	34,183
Due From Other Fund Groups	113,556		
Accounts Receivable	125		
Total Retirement of Indebtedness	**148,031**	**Total Retirement of Indebtedness**	**148,031**
Investment in Plant (At Cost of Acquisition):		**Investment in Plant:**	
Intangible Assets	942,872	Contract and Notes Payable (Note 6)	409,605
Land	1,587,210	Bonds Payable (Note 4)	16,610,000
Buildings	48,747,516	Net Investment in Plant	47,678,703
Other Improvements	3,354,003		
Equipment	4,751,937		
Library Books	5,287,230		
Construction Work In Progress	27,540		
Total Investment in Plant	**64,698,308**	**Total Investment in Plant**	**64,698,308**
TOTAL PLANT FUNDS	**$69,777,202**	**TOTAL PLANT FUNDS**	**$69,777,202**
AGENCY FUNDS:		**AGENCY FUNDS:**	
Cash	$231,064	Accounts Payable	$143,327
Due From Other Fund Groups	10	Due To Other Fund Groups	341
Accounts Receivable	34,682	Property Held in Trust	122,088
TOTAL AGENCY FUNDS	**$265,756**	**TOTAL AGENCY FUNDS**	**$265,756**

The notes are an integral part of this statement.

MONTANA STATE UNIVERSITY - BILLINGS
(A Component Unit of the State of Montana)
STATEMENT OF CHANGES IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 2001

	CURRENT FUNDS				LOAN FUND	ENDOW-MENT FUND	PLANT FUNDS			
	Unrestricted			Restricted						
	General Operating	Designated	Auxiliary				Unexpended	Renewals & Replacements	Retirement of Indebtedness	Investment in Plant
Revenues and Other Additions:										
Tuition and Fees	$10,034,182	$2,881,694	$1,343,944				$75,065	$618,676		
State Appropriations	13,943,910									
Sales, Services, and Miscellaneous	2,854	1,337,116	6,088,600					44,867		
Federal Grants and Contracts				$6,378,755	35,582					
State Grants and Contracts		252,835		1,086,264	15,249					
Other Grants, Contracts				789,893						
Gifts		406,322	36,883	229,278						
Indirect Cost Recoveries	55,359	174,187								
Land Grant Income			273,663							
Investment Income	183,001	145,463	138,355		16,426		82,356	218,262	$8,222	
Interest Earned on Loans					39,279					
Investment in Plant Facilities										$1,952,006
Retirement of Indebtedness										621,288
Total Revenues and Other Additions	**24,219,306**	**5,197,617**	**7,881,445**	**8,484,190**	**106,536**		**157,421**	**881,805**	**8,222**	**2,573,294**
Expenditures and Other Deductions:										
Current Funds Expenditures	23,828,019	4,236,145	6,428,842	8,049,691						
Indirect Costs Recovered				229,545						
Loan Cancellations/Write-offs/Collection Costs					28,314					
Expended for Plant Facilities							525,444	689,807		
Retirement of Indebtedness									683,097	
Interest on Indebtedness									896,349	
Disposal of Plant Facilities										441,767
Incurrment of Debt										663,309
Total Expenditures and Other Deductions	**23,828,019**	**4,236,145**	**6,428,842**	**8,279,236**	**28,314**		**525,444**	**689,807**	**1,579,446**	**1,105,076**
Transfers Among Funds and Additions (Deductions):										
Mandatory Transfers		(330,051)	(1,095,455)						1,425,506	
Nonmandatory Transfers	(583,316)	274,171	(154,806)				(173,811)	586,902	50,859	
Total Transfers and Additions (Deductions)	**(583,316)**	**(55,880)**	**(1,250,261)**				**(173,811)**	**586,902**	**1,476,365**	
Net Increase (Decrease) in Fund Balance	**($192,029)**	**$905,592**	**$202,342**	**$204,954**	**$78,222**		**($541,834)**	**$778,900**	**($94,859)**	**$1,468,218**
Beginning Fund Balance	(1,991,761)	3,641,182	1,994,994	177,155	3,200,305	12,400	1,432,766	3,344,357	129,042	46,210,485
Net Effect of Prior Period Adjustments	9,258	18,870	(78,916)		(8,560)		3,763	(473)		
Residual Equity Transfer		4,387								
Move Equity to Net Investment in Plant							(443,605)	(126,754)		
Fund Balance at End of Year	**($2,174,532)**	**$4,570,031**	**$2,118,420**	**$382,109**	**$3,269,967**	**$12,400**	**$451,090**	**$3,996,030**	**$34,183**	**$47,678,703**

The notes are an integral part of this statement.

MONTANA STATE UNIVERSITY - BILLINGS
(A Component Unit of the State of Montana)
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Unrestricted			Restricted	Total
	General Operating	Designated	Auxiliary		
Revenues:					
Tuition and Fees	$10,034,182	$2,881,694	$1,343,944		$14,259,820
State Appropriations	13,943,910				13,943,910
Sales, Services and Miscellaneous	2,854	1,337,116	6,088,600		7,428,570
Federal Grants and Contracts				$6,204,634	6,204,634
State Grants and Contracts		252,835		1,051,067	1,303,902
Other Grants, Contracts				564,712	564,712
Gifts		406,322	36,883	229,278	672,483
Indirect Cost Recoveries	55,359	174,187			229,546
Land Grant Income			273,663		273,663
Investment Income	183,001	145,463	138,355		466,819
Total Revenues	24,219,306	5,197,617	7,881,445	8,049,691	45,348,059
Expenditures and Mandatory Transfers:					
Educational and General					
Instruction	12,208,992	1,632,208		1,754,189	15,595,389
Research	74,514			149,762	224,276
Public Service	246,466	882,622		868,532	1,997,620
Academic Support	2,215,807	197,297		47,020	2,460,124
Student Services	2,180,451	974,901		736,376	3,891,728
Institutional Support	2,727,306	196,107		307,928	3,231,341
Operation and Maintenance of Plant	3,202,069	49,442			3,251,511
Scholarships and Fellowships	972,414	303,568		4,185,884	5,461,866
Educational and General Expenditures	23,828,019	4,236,145		8,049,691	36,113,855
Mandatory Transfers for:					
Principal and Interest		330,051			330,051
Total Educational and General	23,828,019	4,566,196		8,049,691	36,443,906
Auxiliary Enterprises					
Expenditures			6,428,842		6,428,842
Mandatory Transfers:					
Principal & Interest			1,095,455		1,095,455
Total Auxiliary			7,524,297		7,524,297
Total Expenditures and Mandatory Transfers	23,828,019	4,566,196	7,524,297	8,049,691	43,968,203
Other Transfers and Additions (Deductions):					
Excess of Restricted Receipts over Transfers to Revenue				204,954	204,954
Nonmandatory Transfers	(583,316)	274,171	(154,806)		(463,951)
Total Other Transfers and Additions (Deductions)	(583,316)	274,171	(154,806)	204,954	(258,997)
Net Increase (Decrease) in Fund Balance	$ (192,029)	$905,592	$202,342	$204,954	$1,120,859

The notes are an integral part of this statement.

MONTANA STATE UNIVERSITY - BILLINGS
(A Component Unit of the State of Montana)
STATEMENT OF CHANGES IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 2000

	CURRENT FUNDS				LOAN FUND	ENDOW-MENT FUND	PLANT FUNDS			
	Unrestricted			Restricted						
	General Operating	Designated	Auxiliary				Unexpended	Renewals & Replacements	Retirement of Indebtedness	Investment in Plant
Revenues and Other Additions:										
Tuition and Fees	$9,464,074	$2,370,406	$1,321,067				$81,840	$546,135		
State Appropriations	13,555,560									
Sales, Services, and Miscellaneous	19,822	1,096,896	5,910,088					72,600		
Federal Grants and Contracts				$4,931,390	109,887					
State Grants and Contracts		232,235		737,484	13,119					
Other Grants, Contracts		404,092		568,495						
Gifts				223,676						
Indirect Cost Recoveries	56,710	109,695								
Land Grant Income			261,344							
Investment Income	172,142	97,822	127,977		12,056		183,991	194,527	$8,988	
Securities Lending Income	164	376	187		37		229	304	8	
Loan Proceeds							140,000			
Interest Earned on Loans					57,564					
Investment in Plant Facilities										$12,289,022
Retirement of Indebtedness										920,371
HB15 Bond Proceeds									97,992	
Total Revenues and Other Additions	**23,268,472**	**4,311,522**	**7,620,663**	**6,461,045**	**192,663**		**406,060**	**813,566**	**106,988**	**13,209,393**
Expenditures and Other Deductions:										
Current Funds Expenditures	22,972,600	3,214,791	6,402,087	6,117,485						
Indirect Costs Recovered				166,405						
Loan Cancellations/Write-offs/Collection Costs					61,939					
Expended for Plant Facilities							866,726	949,035		
Retirement of Indebtedness									630,478	
Interest on Indebtedness									917,027	
Disposal of Plant Facilities										188,558
Incurrment of Debt										8,630,417
Total Expenditures and Other Deductions	**22,972,600**	**3,214,791**	**6,402,087**	**6,283,890**	**61,939**		**866,726**	**949,035**	**1,547,505**	**8,818,975**
Transfers Among Funds and Additions (Deductions):										
Compensated Absences	(175,409)	(1,611)	(4,755)							
Mandatory Transfers		(331,068)	(1,099,516)						1,430,584	
Nonmandatory Transfers	(233,265)	87,801	(130,401)				(23,522)	268,488	30,899	
Total Transfers and Additions (Deductions)	**(408,674)**	**(244,878)**	**(1,234,672)**				**(23,522)**	**268,488**	**1,461,483**	
Net Increase (Decrease) in Fund Balance	**($112,802)**	**$851,853**	**($16,096)**	**$177,155**	**$130,724**		**($484,188)**	**$133,019**	**$20,966**	**$4,390,418**
Beginning Fund Balance	(1,878,959)	2,743,313	1,926,898	51,526	3,069,581	12,400	1,159,209	3,304,877	108,076	41,820,067
Transfer of Fund Balance		51,526		(51,526)						
Net Effect of Prior Period Adjustments		(310)	84,192				(83,778)	680		
Residual Equity Transfer		(5,200)								
Move Equity to Net Investment in Plant							841,523	(94,219)		
Fund Balance at End of Year	**($1,991,761)**	**$3,641,182**	**$1,994,994**	**$177,155**	**$3,200,305**	**$12,400**	**$1,432,766**	**$3,344,357**	**$129,042**	**$46,210,485**

MONTANA STATE UNIVERSITY - BILLINGS

(A Component Unit of the State of Montana)

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES

FOR THE FISCAL YEAR ENDED JUNE 30, 2000

	Unrestricted			Restricted	Total
	General Operating	Designated	Auxiliary		
Revenues:					
Tuition and Fees	$ 9,464,074	$2,370,406	$1,321,067		$13,155,547
State Appropriations	13,555,560				13,555,560
Sales, Services and Miscellaneous	19,822	1,096,896	5,910,088		7,026,806
Federal Grants and Contracts				$4,773,223	4,773,223
State Grants and Contracts		232,235		657,547	889,782
Other Grants, Contracts		404,092		463,039	867,131
Gifts				223,676	223,676
Indirect Cost Recoveries	56,710	109,695			166,405
Land Grant Income			261,344		261,344
Investment Income	172,142	97,822	127,977		397,941
Securities Lending Income	164	376	187		727
Total Revenues	23,268,472	4,311,522	7,620,663	6,117,485	41,318,142
Expenditures and Mandatory Transfers:					
Educational and General					
Instruction	12,189,918	1,098,830		979,255	14,268,003
Research	124,850			86,965	211,815
Public Service	275,384	696,419		418,971	1,390,774
Academic Support	2,159,784	57,862		56,570	2,274,216
Student Services	1,944,390	912,542		727,973	3,584,905
Institutional Support	2,565,746	123,527		26,899	2,716,172
Operation and Maintenance of Plant	2,792,204	4,086			2,796,290
Scholarships and Fellowships	920,324	321,525		3,820,852	5,062,701
Educational and General Expenditures	22,972,600	3,214,791		6,117,485	32,304,876
Mandatory Transfers for:					
Principal and Interest		331,068			331,068
Total Educational and General	22,972,600	3,545,859		6,117,485	32,635,944
Auxiliary Enterprises					
Expenditures			6,402,087		6,402,087
Mandatory Transfers:					
Principal & Interest			1,099,516		1,099,516
Total Auxiliary			7,501,603		7,501,603
Total Expenditures and Mandatory Transfers	22,972,600	3,545,859	7,501,603	6,117,485	40,137,547
Other Transfers and Additions (Deductions):					
Excess of Restricted Receipts over Transfers to Revenue				177,155	177,155
Current Year Change in Compensated Absences	(175,409)	(1,611)	(4,755)		(181,775)
Nonmandatory Transfers	(233,265)	87,801	(130,401)		(275,865)
Total Other Transfers and Additions (Deductions)	(408,674)	86,190	(135,156)	177,155	(280,485)
Net Increase (Decrease) in Fund Balance	$ (112,802)	$851,853	($16,096)	$177,155	$900,110

The notes are an integral part of this statement.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

MSU-Billings:

In January of 1994, the Montana Board of Regents of Higher Education approved the restructuring of the Montana University System. As part of that restructuring, effective July 1, 1994, Montana State University-Bozeman was given administrative oversight of Eastern Montana College and the name of the institution was changed to Montana State University-Billings (MSU-Billings). In addition, the Billings Vocational Technical Center was merged as a college of MSU-Billings and was renamed the MSU-Billings College of Technology. The accompanying financial statements represent the activities of MSU-Billings (including the College of Technology) and exclude those of MSU-Bozeman.

Financial Statements:

In accordance with GASB #15, the University has adopted the American Institute of Certified Public Accountants' (AICPA) "College Guide Model" for presentation of its financial statements.

The financial statements of Montana State University-Billings are included as a part of the higher education component unit of the State of Montana Comprehensive Annual Financial Report (CAFR).

The accompanying financial statements of MSU-Billings are prepared on the accrual basis in accordance with generally accepted accounting principles for colleges and universities, except for allowance for uncollectible loans as explained in Note 3 to the financial statements.

The statement of Current Funds Revenues, Expenditures, and Other Changes is a statement of financial activities of current operating funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period.

Fund Accounting:

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the University, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified into funds that are in accordance with specified activities or objectives. Separate accounts are maintained for each fund; however, accounts with similar characteristics have been combined into fund groups and reflected as such in the accompanying financial statements.

Current funds include unrestricted funds allocated to specific purposes by action of the Board of Regents and funds restricted by outside sources. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds. Current unrestricted funds include general operating, designated and auxiliary services. Other funds used are the loan fund for student loans, the endowment fund for recording donor restricted funds prohibiting the expenditure of the principal, the plant fund for recording investments in University property, and the agency fund for recording assets held by the University as custodian or fiscal agent for others.

To the extent that current funds are used to finance plant assets, the amounts so provided are reported as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers in the case of required provisions for debt amortization, interest, equipment renewal and replacement; and (3) transfers of a nonmandatory nature for all other cases.

Gains and losses arising from the sale, collection or other disposition of investments and other non-cash assets are reported in the fund that owned such assets. Ordinary income derived from investments, receivables and the like, is reported in the fund owning such assets. Restricted revenue derived from gifts, grants, appropriation and other restricted sources are reported in the appropriate funds.

Fixed Assets:
Fixed assets are valued at cost when purchased or constructed or, if acquired by gift, at the estimated fair market value at date of gift.

No provision has been made for depreciation of plant facilities in accordance with Governmental Accounting Standard No. 8, "Applicability of FASB Statement No. 93, Recognition of Depreciation by Not-for-Profit Organizations" which states that governmental colleges and universities should not change their accounting and reporting for depreciation of capital assets as a result of FASB Statement No. 93.

Inventories:
The University's policy is to record supplies inventories for certain educational and service departments in addition to inventories held for resale in auxiliary enterprises such as the bookstore and vending operations. All recorded inventories are stated at the lower of cost or market using the first-in, first-out method.

Other:
In accordance with generally accepted accounting principles, the University does not recognize liabilities for items ordered before June 30 but not yet received.

Summer session tuition and fee revenues and expenditures are deferred at June 30 and recorded as revenue and expenditures in the succeeding fiscal year.

Other significant accounting policies are set forth in the accompanying financial statements and notes thereto.

Note 2 - CASH EQUIVALENTS AND INVESTMENTS

Cash Equivalents and Investments at June 30, 2001 consisted of the following:

	Held by the State of Montana Board of Investments	Held by Trustee
Cash Equivalents	$ 5,348,929	$ 415,842
Investments		$ 369,060
Total	$ 5,348,929	$ 784,902

Investments consist primarily of amounts invested through the Montana State Board of Investments using its short-term investment pool (STIP) and U.S. Treasury Bills, and by the trustees as required by the bond indenture. The STIP portfolio includes asset-backed securities, commercial paper, corporate and government securities, repurchase agreements, and variable-rate instruments. STIP investments are recorded at amortized cost. The STIP unit value is fixed at $1.00. All the securities held as cash equivalents and investments by the bond trustee are risk category 1, which means the securities are insured or registered.

In accordance with GASB 31, investments maturing within one year or less at the time of purchase are recorded at amortized cost. Investments with maturities of one year or more are recorded at fair market value, which is obtained from the trustee statement. The difference between cost and market value of investments at June 30, 2001 was $9,050. Investment income is generally recorded when received. Investment Appreciation Income was increased by $9,965 in the financial statements for fiscal year 2001, and was decreased by $18,984 in the financial statements for fiscal year 2000.

Under the provision of state statutes, the Montana Board of Investments authorized the custodial bank to lend its securities to broker dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Board lent certain securities and received US dollar currency cash, US government securities and irrevocable bank letters of credit. The custodial bank does not have the ability to pledge or sell collateral securities unless the borrower defaults. During the loan period, the Board retains all rights and risks of ownership. There were no restrictions on the amount of securities loaned. There were no losses resulting from default of borrowers and the Board had no credit risk exposure to borrowers. The relationship between the average maturities of the investment pool and loans was affected by the maturities of loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. As of June 30, 2001 there were no securities on loan and there is no Securities Lending Collateral Investment Pool recorded in the financial statements. In fiscal year 2001, securities lending income was $5,344 and costs were $5,193, leaving net securities lending income of $151. In fiscal year 2000, securities lending income was $33,416 and costs were $32,093, leaving net securities lending income of $1,323.

Note 3 - ALLOWANCE FOR DOUBTFUL ACCOUNTS - LOAN FUNDS

No provision for uncollectible Perkins, formerly National Direct Student Loans, has been provided for in the accompanying financial statements. The University follows accounting practices for the Perkins Loan Fund that are in accordance with government regulations. Those regulations do not provide for recognition of interest receivable or future loan cancellations by the government. To that extent the portion of the financial statements relating to loan funds are at variance with generally accepted accounting principles. However, 90% of any interest receivable or uncollectible loans and 100% of government cancellations would add to or reduce the U.S. Government's portion of the fund balance and, therefore, would not have significant effect on the overall financial position of the University.

Note 4 - BONDS PAYABLE

Series 1998-F:

On June 1, 1998, Montana State University issued Series F 1998 revenue bonds. MSU-Billings' share of the bonds was $2,275,000, with interest rates ranging from 3.65% to 4.3%. The proceeds from the sale of the bonds were used for the purchase and implementation of new computing hardware, infrastructure and the associated software that is fully compliant with Year 2000 demands.

The Series F 1998 bonds payable is secured by an additional pledged revenue of a new student information technology fee.

At June 30, 2001 the Series F 1998 outstanding bond payable amount was $1,505,000 with 3.90% to 4.0% annual installments through 2005.

Series 1996-D:

On August 21, 1996, Montana State University issued Series D 1996 Facilities Improvement and Refunding Revenue Bonds. MSU-Billings' share of the bonds was $16,680,000, with interest rates ranging from 3.6% to 5.625%. The bonds were issued for various construction projects and to advance refund outstanding Series C 1994 bonds, which have been defeased and removed from the University's records.

The Series D 1996 bonds payable are secured by a first lien on and a pledge of net revenues derived directly or indirectly from (a) all student building fees and student union use fees assessed against students attending the University, (b) all land grant income received by the University, and (c) the operation and use of the income facilities.

At June 30, 2001 the Series D 1996 outstanding bonds payable amount was $15,105,000 with 4.375% to 5.625% annual installments through 2026.

Annual debt service requirements for the next five years, including interest, are as follows:

Year Ending June 30,	1996 Series D Payment	1998 Series F Payment
2002	1,103,154	332,045
2003	1,099,173	335,600
2004	1,099,268	333,430
2005	1,103,131	335,590
2006	1,100,913	331,988
2007-2026 (cumulative)	22,037,656	
Total	$27,543,295	$1,668,653

In prior years, the University defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2001, $555,000 of principal bonds outstanding is considered defeased.

Note 5 - RETIREMENT PROGRAMS

Employees of MSU-Billings who are eligible to participate in retirement programs are all members of the Public Employees' Retirement System (PERS), the Game Wardens & Peace Officer's Retirement System (GWPORS), the Montana Teachers Retirement System (TRS) or the Optional Retirement Program (ORP). Only faculty and administrators with contracts under the authority of the Board of Regents are members of TRS or ORP. Effective July 1, 1993 the ORP became the mandatory retirement plan for new faculty and administrative staff.

Pension Benefit Obligation information is not available on an agency basis, but is available on a statewide basis from the Montana Retirement Systems. The reports can be obtained from:

PERS/GWPORS
P.O. Box 200131
1712 Ninth Ave
Helena, MT 59620
(406)444-3154

TRS
1500 6th Avenue
Helena, MT 59620
(406)444-3134

TIAA-CREF
Republic Plaza, Suite 200
370 17th Street
Denver, CO 80202-5602
(800)842-2776

Defined Benefit Plans:
TRS - This system was established in 1937 and governed by Title 19, chapter 20, MCA. TRS participants are eligible to retire with a minimum 25 years of membership service or five years of creditable service at age 60. A retirement benefit is 1/60 times the years of service times the average final compensation. An employee is vested in TRS following completion of five years of creditable service. Vested employees may retire at or after age 50 and receive a reduced retirement benefit. Effective July 1, 1993, new faculty and administrative staff are no longer eligible for TRS, unless they already have an existing TRS plan.

PERS - Established in 1945 and governed by Title 19, chapter 3, MCA, PERS participants are eligible to retire at age 60 with at least five years of service, at age 65 regardless of length of service or at 30 years of service regardless of age. A reduced retirement benefit may be taken with 25 years of service or at age 50 with a minimum of five years of service. Effective January 1, 1989, monthly retirement benefits are calculated by taking 1/56 times the years of service times the final average salary. Vesting occurs once membership service totals 5 years.

GWPORS – This system was established in 1963 and governed by Title 19, chapter 8, MCA, to provide retirement services for all persons employed as game wardens. Effective July 1, 1997, this system became the mandatory retirement system for campus security officers employed by the university system, unless they already hold membership in PERS. Participants are eligible to retire after completing 20 years of service and reaching age 50. Early retirement with a reduced benefit may be taken after completing 5 years of service and reaching age 55. The retirement formula is 2% of the final average salary (FAS) per year of service. There is a 5 year vesting period.

Defined Contribution Plan:
ORP - Established under the authority of Title 19, chapter 21, MCA, ORP provides benefits at retirement which are dependent upon the amount of contributions, investment gains and losses, employee's life expectancy, and the selected contract option. Individuals are immediately vested with contribution. This fund is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF).

Retirement Plan Information for the year ended June 30, 2001

	PERS	GWPORS	TRS	ORP (TIAA-CREF)
Covered Payroll	$ 5,618,174	$ 16,511	$ 5,296,187	$ 6,546,913

	PERS	GWPORS	TRS	ORP (TIAA-CREF)
Total Payroll	$19,034,387	$19,034,387	$19,034,387	$19,034,387
Employer Contributions	$ 387,654	$ 1,486	$ 395,625	$ 324,465
Percent of Covered Payroll	6.900	9.000	7.470	4.956
Employee Contributions	$ 387,654	$ 1,403	$ 378,677	$ 461,165
Percent of Covered Payroll	6.900	8.500	7.150	7.044

Retirement Plan Information for the year ended June 30, 2000

	PERS	GWPORS	TRS	ORP (TIAA-CREF)
Covered Payroll	$ 5,316,478	$ 27,944	$ 5,345,884	$ 5,746,651
Total Payroll	$17,862,123	$17,862,123	$17,862,123	$17,862,123
Employer Contributions	$ 366,837	$ 2,515	$ 399,338	$ 284,804
Percent of Covered Payroll	6.900	9.000	7.470	4.956
Employee Contributions	$ 366,837	$ 2,375	$ 382,231	$ 404,794
Percent of Covered Payroll	6.900	8.500	7.150	7.044

For ORP participants, a total of $244,200 or 3.73% in fiscal year 2001 and $196,535 or 3.42% in fiscal year 2000 of covered payroll was contributed to TRS from employer contributions to amortize past service unfunded liability in accordance with Title 19, Chapter 21, MCA.

The amounts contributed to the defined benefit retirement plans during the years ended June 30, 1999, 2000, and 2001 were equal to the required contribution each year. The amounts contributed by the University and its employees were:

	PERS	GWPORS	TRS
FY 1999	$729,000	$1,546	$842,173
FY 2000	$733,674	$4,890	$781,569
FY 2001	$775,308	$2,889	$774,302

Note 6 - COMMITMENTS AND CONTINGENT LIABILITIES

Construction Projects:

Project administration for major construction projects of the University is performed by the Architecture and Engineering (A&E) Division of the Montana Dept. of Administration. Those projects noted with LRBP are either entirely or partially funded by the State's Long Range Building Program in which funds are appropriated to A&E to administer the project on behalf of the University.

At June 30, 2001 construction projects include:

Project	Authorized Spending Authority	Remaining Spending Amount	Funding Source
Liberal Arts Bldg Renovation	3,220,000	3,220,000	State LRBP
HVAC	499,810	20,856	State LRBP
ADA Projects	276,246	80,595	State LRBP

Tennis Bubble	249,931	246,213	Campus Funds, Foundation, 96D Bonds
Softball Field	220,014	202,851	Campus Funds, Foundation, 96D Bonds
Day Care Center	245,900	219,210	Foundation, 96D Bonds
Small Business Development Ctr	222,500	17,177	HUD Federal Appropriation
28th St Acquisition	65,000	11,752	96D Bonds
Front End Operating System	31,254	3,714	State LRBP

Capital Leases:
During fiscal year 1999, the University entered into a capital lease agreement with Capital Acceptance Corporation for a security system. The lease term is from February of 1999 to January of 2002. During fiscal year 2000, the University entered into two new lease agreements with GE Capital for computer equipment. The terms of those leases are from January 2000 to March 2002 and from April 2000 to June 2002.

As of June 30, 2001, total annual principal and interest payments for capital leases are:

Year Ending June 30,	Principal	Interest	Total
2002	$ 5,345	$ 253	$ 5,598

Contracts and Notes Payable:
Process Plant Technology Loan – During fiscal year 1999, the University received a loan from the Montana Board of Investments Intercap Revolving Program. Proceeds of $251,155 were used to finance renovations at the College of Technology to accommodate the Process Technology Plant program. As of June 30, 2001, annual principal and projected interest payments are:

Year Ending June 30,	Principal	Interest	Total
2002	23,105	9,592	32,697
2003	24,240	8,458	32,698
2004	25,429	7,268	32,697
2005	26,678	6,037	32,715
2006	27,987	4,710	32,697
2007-2008	76,110	5,617	81,727
Total	$203,549	$41,682	$245,231

Athletic Loan – During fiscal year 1999, the University received a loan from Norwest Investment Services. Proceeds of $20,000 were used to finance the purchase of athletic equipment.

As of June 30, 2001, annual principal and interest payments are:

Year Ending June 30,	Principal	Interest	Total
2002	5,190	943	6,133
2003	5,642	491	6,133
Total	$10,832	$1,434	$12,266

Special Education Building Intercap Loan – During fiscal year 2000, the University received a loan from the Montana Board of Investments Intercap Revolving Program. Proceeds of $140,000 were used to finance renovations in the Special Education Building.

As of June 30, 2001, annual principal and projected interest payments are:

Year Ending June 30,	Principal	Interest	Total
2002	12,271	6,644	18,915
2003	12,804	5,949	18,753
2004	13,361	5,225	18,586
2005	13,932	4,481	18,413
2006	14,547	3,680	18,227
2007-2010	54,798	6,159	60,957
Total	$121,713	$32,138	$153,851

Escrow Agreement – During fiscal year 2000, the University entered into an escrow agreement to purchase real estate located at 3009 Yucca in Billings, Montana. The purchase price was $144,000 with a down payment of $51,500.

As of June 30, 2001, annual principal and interest payments are:

Year Ending June 30,	Principal	Interest	Total
2002	18,839	4,624	23,463
2003	20,352	3,111	23,463
2004	21,984	1,479	23,463
2005	6,992	107	7,099
Total	$68,167	$ 9,321	$ 77,488

Operating Leases:

Total rental payments for operating leases in fiscal year 2001 were $239,980 and in fiscal year 2000 were $188,441. Certain scheduled rental payments for operating leases over the next four years of $301,062 have been prepaid by the University.

Compensated Absences:

In accordance with FASB Statement No. 43 "Accounting for Compensated Absences", the liability and charge for compensated absences related to current and previous years are recorded in the unrestricted current funds. At June 30, 2001, the value of unused vacation, sick leave and related benefits accumulated by employees was $2,646,407. Compensated absences liability increased by $204,521 during fiscal year 2001 and by $181,775 during fiscal year 2000. In accordance with GASB #16, estimated employer payments related incrementally to payroll are included in compensated absences.

Eligible employees may accumulate and carry to the following calendar year, two times the maximum number of vacation days earned annually. Unused vacation leave is purchased at full value from employees upon termination. Sick leave can be accumulated without limitation and unused sick leave earned since July 1, 1971 is purchased from all employees at twenty-five percent of its value upon termination.

Federal Income Tax:

Although the University is exempt from federal income tax as an instrumentality of the State of Montana, certain income generated may be considered unrelated business income by the Internal Revenue Service. The Montana University System files appropriate tax returns with the IRS to report such income.

Note 7 - AFFILIATED ORGANIZATIONS

Montana State University-Billings is a component unit of the State of Montana. These financial statements include only the activities, funds, and accounts of the University.

Private nonprofit organizations affiliated with the University include the Friends of KEMC and the MSU-Billings Foundation (including the Sting Athletic Association and the Alumni Association). The affiliated organizations operate exclusively for the purposes of encouraging, promoting, and supporting educational programs, research, scholarly pursuits and athletics at or in connection with the University.

Friends of KEMC transferred $335,158 in fiscal year 2001 and $291,300 in fiscal year 2000 to the University in support of KEMC operations.

The Foundation transferred $708,122 in fiscal year 2001 and $670,329 in fiscal year 2000 to the University in support of academic, athletic and support programs. The University transferred $767,506 in fiscal year 2001 and $355,069 in fiscal year 2000 to the Foundation for contract, capital campaign support and miscellaneous payments.

During fiscal year 2001, the University entered into a lease agreement with the Foundation for additional space in the Professional Building. The University transferred additional funds of $250,000 in fiscal year 2001 to prepay the lease through 2005. Renovations of leased space in the Professional Building were also provided valued at $205,323.

The University Book Depot has a lease agreement with the Foundation for space in the Professional Building. The current term of the lease is from July 1, 2001 through June 30, 2002 at a rate of $595 per month.

The above amounts are included in the accompanying financial statements.

The University provides the Foundation with office space and related expenses, valued at $30,000 as in-kind contributions for fiscal years 2001 and 2000.

MSU — Northern

Independent Auditor's Report & Montana State University-Northern Financial Statements

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel

Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet of Montana State University-Northern, a component of the state of Montana, as of June 30, 2001 and the related Statements of Changes in Fund Balances and Statements of Current Fund Revenues, Expenditures, and Other Changes for each of the two fiscal years ended June 30, 2000 and 2001. The information contained in these financial statements is the responsibility of Montana State University-Northern's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana State University-Northern as of June 30, 2001, and its changes in fund balances and the current funds revenues, expenditures, and other changes for the two fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

November 29, 2001

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MONTANA STATE UNIVERSITY-NORTHERN, COMPONENT UNIT OF THE STATE OF MONTANA
BALANCE SHEET
June 30, 2001

	Current Funds						Plant Funds				
	Unrestricted										
	General Operating	Designated	Auxiliary Enterprises	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant	Agency Funds
Assets											
Cash and cash equivalents	528,621	692,786	168,184	112,704	396,867	162,791	146,731	251,664	85,417		70,918
Accounts receivables-less uncollectible accounts	430,299	4,501	28,954	288,337	14,547	47	474	73	294	-	34,203
Loan receivable-less allowance for bad debt	-				1,488,462	-		-		-	
Due from other fund groups	19,945	84.261	20,000	33,982							18,954
Investments	-			-	-		-	71,138		-	
Inventories	-	42,277	213,774	-	-	-	-	-		-	
Prepaid expenses	461.223	19,226	1,975	-	-	-	-	-		-	7,208
Land										470.450	
Improvements										334.666	
Buildings				-	-					13,133,525	
Equipment										2,704,185	
Library books										1,303,814	0
Total Assets	1.440,088	843,051	432,887	435,023	1,899,876	162,838	147,205	322,875	85,711	17,946,640	131,283
Liabilities											
Accounts payable and accrued liabilities	826,277	124,124	63,614	178,994	140		2,652	2,050	18,363		11,811
Due to other fund groups	73,009	5,928	49,356	1,512	18,955						28,383
Deferred revenue	569,188	64,976	78,021				17,565	21,120			
Property held for others	1,478		29,650								91,089
Bonds payable										2,600,000	
Notes payable										1,031,174	
Leases payable										5,967	
Compensated Absenses	892,256	88,088	41,455								
Total Liabilities	2,362,208	283,116	262,096	180,506	19,095	0	20,217	23,170	18,363	3,637,141	131,283
Fund Balance											
Unreserved	(922,120)	559,935	170,791	254,517		51,738	28,752	122,142	60,752		
Reserved						111,100	98,236	177,563	6,596		
U S Government grants refundable					1,528,959						
University funds					351,822						
Net Investment in Plant										14,309,499	
Total Fund Balance	(922,120)	559,935	170,791	254,517	1,880,781	162,838	126,988	299,705	67,348	14,309,499	0
Total Liabilities and Fund Balance	1.440,088	843,051	432,887	435,023	1,899,876	162,838	147,205	322,875	85,711	17,946,640	131,283

MONTANA STATE UNIVERSITY-NORTHERN COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2001

	Current Funds						Plant Funds			
	Unrestricted									
	General Operating	Designated	Auxiliary Enterprises	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Revenue and other additions										
Current funds revenue	$ 10,669,528	$ 1,319,915	$ 2,401,115	$ 4,752,259	-	-	-	-	-	-
Federal grants and contracts					$ 22,166					
Federal capital contribution	-	-	-	-		-	-	-	-	-
University capital contribution	-	-	-	-	20,500	-	-	-	-	-
Private capital contribution	-	-	-	-	4,000	-	-	2,000	-	-
Interest on loans receivable	-	-	-	-	25,996	-	-	-	-	-
Student fees	-	-	-	-	-	-	$ 109,043	$ 138,375	-	-
Investment income	-	-	-	-	17,699	$ 840	9,966	12,700	$ 5,527	.
Move equity	-	-	-	-	-	-		-	-	-
Bond proceeds	-	-	-	-	-	-	-	-		-
Debt retirement	-	-	-	-	-	-	-	-	-	$ 378,726
Plant additions										118,440
Other	-	-	-	-	2,262	-	29	2,000		-
Total revenue and other additions	10,669,528	1,319,915	2,401,115	4,752,259	92,623	840	119,038	155,075	5,527	497,166
Expenditures and other deductions										
Current funds expenditures	10,671,354	1,230,697	2,024,169	4,621,753	-	-	-	-	.	-
Indirect Costs Recovered				129,722						
Loan cancellations	-	-	-	-	34,213	-	-	-	-	-
Expended for plant facilities							68,974	62,686		-
Interest on debt	-	-	-	-	-	-	-	-	207,484	-
Bonds payable	-	-	-	-	-	-	-	-	175,000	-
Installment loan debt	-	-	-	-	-	-	-	-	194,670	14,000
Leases	-	-	-	-	-	-	-	-	-	-
Disposal of plant assets	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	82,834	$ 500	-	-	-	-
Total expenditures and other deductions	10,671,354	1,230,697	2,024,169	4,751,475	117,047	500	68,974	62,686	577,154	14,000

See notes to financial statements

MONTANA STATE UNIVERSITY-NORTHERN, COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CHANGES IN FUND BALANCES (continued)
YEAR ENDED JUNE 30, 2001

	Current Funds						Plant Funds			
	Unrestricted									
	General Operating	Designated	Auxiliary Enterprises	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Transfers among funds additions - (deductions):										
Mandatory:										-
All fund groups	-	$ (19,062)	$ (239,978)	-	-	-	$ (81,844)	-	$ 340,884	-
Voluntary:										
General operating-net	-	-	-	-	-	51,739	-	-	54,482	-
Designated-net	-	-	(13,982)	-	-	-	-	-		-
Auxiliary enterprises-net	-	13,982	-	-	-	-	-	-	181,245	-
Endowment-net	(51,739)									
Retirement of debt-net	$ (54,482)	0	(181,245)	-	-	-	-	-	-	-
Total transfers	(106,221)	(5,080)	(435,205)	0	0	51,739	(81,844)	0	576,611	0
Net increase (decrease) in fund balance	$ (108,046)	$ 84,138	$ (58,259)	$ 784	$ (24,425)	$ 52,078	$ (31,780)	$ 92,389	$ 4,984	$ 483,166
Fund balances at beginning of year as previously reported	(939,981)	601,803	229,050	253,763	1,894,814	110,760	158,768	25,706	62,364	14,007,943
Adjustments:										
Prior year revenues		-	-	-	10,392	-	-	-	-	-
Prior year expenditures	(99)	-	-	(30)	-	-	-	-	-	-
Fund reclassification	126,006	(126,006)	-	-	-	-			-	-
Total adjustments	125,907	(126,006)	0	(30)	10,392	0	0	0	0	0
Fund balances at beginning of year as adjusted	(814,074)	475,797	229,050	253,733	1,905,206	110,760	158,768	25,706	62,364	14,007,943
Move Equity to Net Investment in Plant								181,610		(181,610)
Fund balances at end of year	$ (922,120)	$ 559,935	$ 170,791	$ 254,517	$ 1,880,781	$ 162,838	$ 126,988	$ 299,705	$ 67,348	$ 14,309,499

See notes to financial statements

MONTANA STATE UNIVERSITY-NORTHERN, COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
YEAR ENDED JUNE 30, 2001

	Unrestricted				
	General Operating	Designated	Auxiliary Enterprises	Restricted	Total
Revenues:					
Tuition and fees	$ 3,581,927	$ 648,935	561,478	$ 0	$ 4,792,340
Federal appropriations	-	-	-	-	0
State appropriations	7,030,400	-	-	-	7,030,400
Federal grants and contracts	0	129,722	-	3,976,167	4,105,889
State grants and contracts	-	123,555	-	85,103	208,658
Private grants, and contracts	-	-	-	90,303	90,303
Gifts	-	2,594	3,768	456,659	463,021
Other sources	57,201	124,908	246,852	12,910	441,871
Sales and service	-	290,201	$ 1,589,017	611	1,879,829
Total revenues	10,669,528	1,319,915	2,401,115	4,621,753	19,012,311
Expenditures and mandatory transfers:					
Education and general					
Instruction	5,411,522	408,330	-	878,975	6,698,827
Research	-	-	-	-	0
Public service	-	76,916	-	71,956	148,872
Academic support	921,245	11,229	-	22,289	954,763
Student services	1,337,945	329,031	-	1,179,130	2,846,106
Institutional support	1,123,083	281,135	-		1,404,218
Operation and maintenance of plant	1,198,965	-	-	-	1,198,965
Scholarships and fellowships	678,593	124,056	-	2,469,403	3,272,052
Other	-	-	-	-	0
Education and general expenditures	10,671,353	1,230,697	0	4,621,753	16,523,803
Auxiliary enterprises:					
Expenditures	-	-	2,024,169		2,024,169
Mandatory transfers	-	19,062	239,978	-	259,040
Total auxiliary	0	19,062	2,264,147	0	2,283,209
Total expenditures and mandatory transfers	10,671,353	1,249,759	2,264,147	4,621,753	18,807,012
Other transfers and additions (deductions):					
Excess of restricted receipts over transfers to revenue	-	-	-	784	784
Transfers	(106,221)	13,982	(195,227)	-	(287,466)
Net increase (decrease) in fund balance	$ (108,046)	$ 84,138	$ (58,259)	$ 784	$ (81,383)

See notes to financial statements

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MONTANA STATE UNIVERSITY-NORTHERN, COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2000

	Current Funds						Plant Funds			
	Unrestricted									
	General Operating	Designated	Auxiliary Enterprises	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Revenue and other additions										
Current funds revenue	$ 10,477,664	$ 1,356,614	$ 2,542,480	$ 4,320,755	-	-	-	-	-	-
Federal capital contribution	-	-	-	-	$ 37,261	-	-	-	-	-
University capital contribution	-	-	-	-	20,518	-	-	-	-	-
Private capital contribution	-	-	-	-	-	-	-	-	-	-
Interest on loans receivable	-	-	-	-	23,836	-	-	-	-	-
Student fees	-	-	-	-	-	-	$ 112,757	$ 144,957	-	-
Investment income	-	-	-	-	15,564	$ 544	10,076	12,127	$ 3,296	-
Move equity	-	-	-	-	-	-	24,000	-	-	-
Bond proceeds	-	-	-	-	-	-	-	-	38,238	-
Debt retirement	-	-	-	-	-	-	-	-	-	$ 462,320
Plant additions (including $118,755 charged to current funds)	-	-	-	-	-	-	-	-	-	131,714
Other	-	-	-	-	2,256	-	23	-	163	-
Total revenue and other additions	10,477,664	1,356,614	2,542,480	4,320,755	99,435	544	146,856	157,084	41,697	594,034
Expenditures and other deductions										
Current funds expenditures	10,212,978	1,199,098	2,050,939	4,057,467	-	-	-	-	-	-
Loan cancellations	-	-	-	-	26,870	-	-	-	-	-
Indirect Costs Recovered				117,279						
Expended for plant facilities (including $439.415 non-capital expenditures)	-	-	-	-	-	-	132,883	306,703	-	-
Interest on debt	-	-	-	-	-	-	-	-	213,126	-
Bonds payable	-	-	-	-	-	-	-	-	170,000	-
Installment loan debt	-	-	-	-	-	-	-	-	279,156	24,000
Leases	-	-	-	-	-	-	-	-	-	-
Disposal of plant assets	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	15,103	$ 500	-	-	-	-
Total expenditures and other deductions	10 212,978	1,199,098	2,050,939	4,174,746	41,973	500	132,883	306,703	662,282	24,000

See notes to financial statements

MONTANA STATE UNIVERSITY-NORTHERN, COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CHANGES IN FUND BALANCES (continued)
YEAR ENDED JUNE 30, 2000

	Current Funds						Plant Funds			
	Unrestricted									
	General Operating	Designated	Auxiliary Enterprises	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Transfers among funds additions - (deductions):										
Mandatory:										
All fund groups	-	$ (18,236)	$ (239,699)	-	-	-	$ (111,767)	-	$ 369,702	-
Voluntary:										
General operating-net	-	-	-	-	-	-	-	-	110,361	-
Designated-net	-	-	(23,590)	-	-	-	-	-	(19,247)	-
Auxiliary enterprises-net	-	23,590	-	-	-	-	-	-	159,996	-
Retirement of debt-net	$ (110,361)	19,247	(159,996)	-	-	-	-	-	-	-
Total transfers	(110,361)	24,601	(423,285)	0	0	0	(111,767)	0	620,812	0
Net increase (decrease) in fund balance	$ 154,325	$ 182,117	$ 68,256	$ 146,008	$ 57,462	$ 44	$ (97,794)	$ (149,619)	$ 227	$ 570,034
Fund balances at beginning of year as previously reported	(1,094,804)	290,363	160,794	100,750	1,837,352	110,716	122,308	159,233	62,137	13,588,254
Adjustments:										
Prior year revenues	-	-	-	7,503	-	-	-	-	-	-
Prior year expenditures	498	-	-	(498)	-	-	-	-	-	-
Fund reclassification	-	129,323	-	-	-	-	(16,091)	16,091	-	-
Total adjustments	498	129,323	0	7,005	0	0	(16,091)	16,091	0	0
Fund balances at beginning of year as adjusted	(1,094,306)	419,686	160,794	107,755	1,837,352	110,716	106,217	175,324	62,137	13,588,254
Move Equity to Net Investment in Plant							150,345			(150,345)
Fund balances at end of year	$ (939,981)	$ 601,803	$ 229,050	$ 253,763	$ 1,894,814	$ 110,760	$ 158,768	$ 25,705	$ 62,364	$ 14,007,943

See notes to financial statements

MONTANA STATE UNIVERSITY-NORTHERN, COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
YEAR ENDED JUNE 30, 2000

	Unrestricted				
	General Operating	Designated	Auxiliary Enterprises	Restricted	Total
Revenues:					
Tuition and fees	$ 3,568,668	$ 566,165	581,558	$ 9,574	$ 4,725,965
Federal appropriations	-	-	-	-	0
State appropriations	6,829,154	-	-	-	6,829,154
Federal grants and contracts	36,225	108,004	-	3,339,756	3,483,985
State grants and contracts	-	275,291	-	110,770	386,061
Private grants, and contracts	-	-	-	119,313	119,313
Gifts	-	-	-	463,208	463,208
Other sources	43,617	120,308	178,017	14,846	356,788
Sales and service	-	286,846	$ 1,782,905	-	2,069,751
Total revenues	10,477,664	1,356,614	2,542,480	4,057,467	18,434,225
Expenditures and mandatory transfers:					
Education and general					
Instruction	4,946,861	529,532	-	583,041	6,059,434
Research	-	-	-	-	0
Public service	-	51,357	-	105,146	156,503
Academic support	1,038,756	531	-	24,239	1,063,526
Student services	1,324,573	404,585	-	962,382	2,691,540
Institutional support	1,037,963	96,559	-	10,744	1,145,266
Operation and maintenance of plant	1,227,334	-	-	668	1,228,002
Scholarships and fellowships	637,491	116,534	-	2,371,247	3,125,272
Other	-	-	-	-	0
Education and general expenditures	10,212,978	1,199,098	0	4,057,467	15,469,543
Auxiliary enterprises:					
Expenditures	-	-	2,050,939	-	2,050,939
Mandatory transfers	-	18,236	239,699	-	257,935
Total auxiliary	0	18,236	2,290,638	0	2,308,874
Total expenditures and mandatory transfers	10,212,978	1,217,334	2,290,638	4,057,467	17,778,417
Other transfers and additions (deductions):					
Excess of restricted receipts over transfers to revenu	-	-	-	146,008	146,008
Transfers	(110,361)	42,837	(183,586)	-	(251,110)
Net increase (decrease) in fund balance	$ 154,325	$ 182,117	$ 68,256	$ 146,008	$ 550,706

See notes to financial statements

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

MSU-Northern:
In January of 1994 the Montana Board of Regents of Higher Education approved the restructuring of the Montana University System. As part of that restructuring, effective July 1, 1994, Montana State University-Bozeman was given administrative oversight of Northern Montana College and the name of the institution was changed to Montana State University-Northern (MSU-Northern). The accompanying financial statements represent the activities of MSU-Northern and exclude those of MSU-Bozeman.

Financial Statements:
In accordance with GASB #15, the University has adopted the American Institute of Certified Public Accountants' (AICPA) "College Guide Model" for presentation of its financial statements.

The financial statements of Montana State University-Northern are included as part of the higher education component unit of the State of Montana Comprehensive Annual Financial Report (CAFR).

The accompanying financial statements of MSU-Northern are prepared on the accrual basis in accordance with generally accepted accounting principles for colleges and universities, except for allowance for uncollectible loans as explained in Note 3 to the financial statements.

The statement of Current Funds Revenue, Expenditures, and Other Changes is a statement of financial activities of current operating funds related to the current reporting period. It does not purport to present the results of operations of the net income or loss for the period.

Fund Accounting:
In order to ensure observance of limitations and restrictions placed on the use of the resources available to the University, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified into funds that are in accordance with specified activities or objectives. Separate accounts are maintained for each fund; however, accounts with similar characteristics have been combined into fund groups and reflected as such in the accompanying financial statements.

Current funds include unrestricted funds allocated to specific purposes by action of the Board of Regents and funds restricted by outside sources. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds. Current unrestricted funds include general operating, designated and auxiliary services. Other funds used are the loan fund for student loans, the endowment fund for recording donor restricted funds prohibiting the expenditure of the principal, the plant fund for recording investments in University property, and the agency fund for recording assets held by the University as custodian or fiscal agent for others.

To the extent that current funds are used to finance plant assets, the amounts so provided are reported as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers in the case of required provisions for debt amortization, interest, equipment renewal and replacement; and (3) transfers of a nonmandatory nature for all other cases.

Gains and losses arising from the sale, collection or other disposition of investments and other non-cash assets are reported in the fund that owned such assets. Ordinary income derived from the investments, receivables and the like, is reported in the fund owning such assets. Restricted revenue derived from gifts, grants, appropriation and other restricted sources are reported in the appropriate funds.

Fixed Assets:
Fixed assets are valued at cost when purchased or constructed or, if acquired by gift, at the estimated fair market value at date of gift.

No provision has been made for depreciation of plant facilities in accordance with Governmental Accounting Standards No. 8, "Applicability of FASB Statement No. 93, Recognition of Depreciation by Not-for-Profit Organizations" which states that governmental colleges and universities should not change their accounting and reporting for depreciation of capital assets as a result of FASB Statement No.93.

Inventories:
The University's policy is to record supplies inventories for certain educational and service departments in addition to inventories held for resale in auxiliary enterprises such as the bookstore. All recorded inventories are stated at the lower of cost or market using the first-in, first-out method.

Other:
In accordance with generally accepted accounting principles, the University does not recognize liabilities for items ordered before June 30 but not yet received.

Summer session tuition and fee revenues and expenditures are deferred at June 30 and recorded as revenue and expenditures in the succeeding fiscal year.

Other significant accounting policies are set forth in the accompanying financial statements and notes thereto.

Note 2 – CASH EQUIVALENTS AND INVESTMENTS

Cash Equivalents and Investments at June 30, 2001 consisted of the following:

	Held by the State of Montana Board of Investments	Held by Foundation	Held by Trustee
Cash Equivalents			$108,296
Investments		$97,532	$ 69,147
Total	$0	$97,532	$177,443

Investments primarily consist of amounts invested through the Montana board of Investments using its short-term investment pool (STIP) and U.S. Treasury Bills, and by the trustees as required by the bond indenture. There was no STIP as of the balance sheet date, however the University did invest in STIP throughout the year. The University's Endowment Fund principal is managed by the Montana State University-Northern Development Foundation and is invested in a certificate of deposit. The STIP portfolio included asset-backed securities, commercial paper, corporate and government securities, repurchase agreements, variable-rate instruments, and covered options. STIP investments are recorded at amortized cost. The STIP unit value is fixed at $1.00. All the securities held as cash equivalents and investments by the bond trustees are risk category 1, which means the securities are insured and registered.

In accordance with GASB 31, investments maturing within one year or less at the time of purchase are recorded at amortized cost. Investments with maturities of one year or more are recorded at fair market value, which is obtained from the trustee statement. The difference between cost and market value of investments at June 30, 2001 was $1,991. Investment income is generally recorded when received.

Under the provision of state statues, the Montana Board of Investments authorized the custodial bank to lend its securities to broker dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Board lent certain securities and received US dollar currency cash, US government securities and irrevocable bank letters of credit. The custodial bank does not have the ability to pledge or sell collateral securities unless the borrower defaults. During the loan period, the Board retains all rights and risks of ownership. There were no restrictions on the amount of securities loaned. There were not losses resulting from default of borrowers and the Board had no credit risk exposure to borrowers. The relationship between the average maturities of the investment pool and loans was affected by the maturities of loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine.

Note 3 – ALLOWANCE FOR DOUBTFUL ACCOUNTS – LOAN FUNDS

No provision for uncollectible Perkins, formerly National Direct Student Loans, has been provided for in the accompanying financial statements. The University follows accounting practices for the Perkins Loan Fund that are in accordance with governmental regulations. Those regulations do not provide for recognition of interest receivable or future loan cancellations by the government. To the extent the portion of the financial statements relating to loan funds are at variance with generally accepted accounting principles. However, 90% of any interest receivable or uncollectible loans and 100% of government cancellations would add to or reduce the U.S. Government's portion of the fund balance and, therefore, would not have significant effect on the overall financial position of the University.

Note 4 – BONDS PAYABLE

Series 1998-F:

On June 1, 1998, Montana State University issued Series F 1998 revenue bonds. MSU-Northern's share of the bonds was $560,000, with interest rates ranging from 3.65% to 4.3%. The proceeds from the sale of the bonds were used for the purchase and implementation of new computing hardware, infrastructure and the associated software that was fully compliant with Year 2000 demands.

The Series F 1998 bonds payable is secured by an additional pledged revenue of a new student information technology fee.

As of June 30, 2001, the Series F 1998 outstanding bond payable amount was $370,000.

Series 1994-C:

On June 16, 1994, Montana State University issued Series C 1994 Revenue Bond. MSU-Northern's share of the bonds was $2,890,000 with an interest rate of 3.3% graduating to 6.0%. $1,349,072 of the bond proceeds were deposited into an irrevocable trust with an escrow agent to advance refund the Auxiliary Facilities and Student Building Fees Revenue Bonds Series 1987-A, which has an interest rate ranging from 7% to 8.75%. The escrow agent invested the bond proceeds in U.S. government securities until the bonds maturing on and after October 1, 1998 and December 15, 1998, are redeemed by optional redemption on October 1, 1997 and June 15, 1998, respectively. The escrow agent will pay the outstanding bonds maturing before October 1, 1997, on their normal payments dates. The advance refunding met the requirements of a legal defeasance and the 1987 Series A Bond liability has been removed from the University's financial records. The purpose of the refunding was to take advantage of savings that resulted from lower interest rates. The advance refunding resulted in the recognition of an accounting loss of $94,072 for the fiscal year ending June 30, 1994. The economic gain calculated using and effective interest rate of 5.35% is $78,664. At June 30, 1997, the principal balance of the defeased bonds was $1,050,000.

The balance of the bond proceeds, after bond issuance costs, will be utilized for auxiliary facilities renovation projects in the amount of $1,450,000. The Series 1994-C Revenue Bonds are payable solely from auxiliary facilities revenue, student fee revenues, and earning from investment of certain funds and accounts created under the bond indenture.

As of June 30, 2001, the Series C 1998 outstanding bond payable amount was $2,230,000.

Annual debt service requirement for the next five years, including interest, are as follows:

Year Ending June 30,	1994 Series C Payment	1998 Series F Payment
2002	239,638	83,973
2003	238,703	81,137
2004	242,230	83,146
2005	240,206	80,015
2006	237,745	81,720
2007-2015	2,023,518	0
Total	3,222,040	409,991

Note 5 – RETIREMENT PROGRAMS

Employees of MSU-Northern who are eligible to participate in retirement are all members of Public Employees' Retirement System (PERS), the Montana Teachers Retirement System (TRS) or the Optional Retirement Program (OPR). Only faculty and administration with contracts under the authority of the Board of Regents are members of TRS or ORP. Effective July 1, 1993 the OPR became the mandatory retirement plan for new faculty and administrative staff.

Pension Benefits Obligation Information is not available on an agency basis, but is available on a statewide basis from the Montana Retirement Systems. The reports can be obtained from:

PERS
P.O. Box 200131
100 North Park
Helena, MT 59620
(406) 444-3154

TRS
1500 6th Avenue
Helena, MT 59620
(406) 444-3134

TIAA-CREF
Republic Plaza, Suite 200
370 17th Street
Denver, CO 80202-5602
(800) 842-2776

Defined Benefit Plans:

TRS – This system was established in 1937 and governed by Title 19, chapter 20, MCA. TRS participants are eligible to retire with a minimum of 25 years of membership service or five years of creditable service at age 60. A retirement benefits is 1/60 times the years of service times the average final compensation. An employee is vested in TRS following completion of five years of creditable service. Vested employees may retire at or after age 50 and receive a reduced retirement benefit. Effective July 1, 1993, new faculty and administrative staff are no longer eligible for TRS, unless they already have an existing TRS plan.

PERS – Established in 1945 and governed by Title 19, chapter 3, MCA, PERS participants are eligible to retire at age 60 with at least five years of service, at age 65 regardless of length of service or at 30 years of service regardless of age. A reduced retirement benefit may be taken with 25 years of service or at age 50 with a minimum of five years of service. Effective January 1, 1989, monthly retirement benefits are calculated by taking 1/56 times the years of service times the final average salary. Vesting occurs once membership service totals 5 years.

Defined Contribution Plan:

ORP – Established under the authority of Title 19, chapter 21, MCA, OPR provides benefits at retirement which are dependent upon the amount of contributions, investment gains and losses, employee's life expectancy, and the selected contract option. Individuals are immediately vested with contribution. The Teachers' Insurance and Annuity Association –College Retirement Equities Fund (TIAA-CREF), underwrites this fund.

Retirement Plan Information for the year ended June 30, 2000

	PERS	TRS	ORP (TIAA-CREF)
Covered Payroll	$ 1,912,836	$ 2,688,257	$ 2,180,268
Total Payroll	$ 7,796,388	$ 7,796,388	$ 7,796,388
Employer Contributions	$ 131,986	$ 200,813	$ 108,054
Percent of Covered Payroll	6.900	7.470	7.956
Employee Contributions	$ 131,986	$ 192,210	$ 153,578
Percent of Covered Payroll	6.900	7.150	7.044

For ORP participants, a total of $81,324 or 3.420% in 2000 was contributed to TRS from employer contributions to amortize past service unfunded liability in accordance with Title 19, chapter 21, MCA.

Retirement Plan Information for the year ended June 30, 2001

	PERS	TRS	ORP (TIAA-CREF)
Covered Payroll	$ 2,000,522	$ 2,439,859	$ 2,467,413
Total Payroll	$ 8,032,848	$ 8,032,848	$ 8,032,848
Employer Contributions	$ 138,036	$ 182,257	$ 122,285
Percent of Covered Payroll	6.900	7.470	7.956
Employee Contributions	$ 138,036	$ 174,450	$ 173,805
Percent of Covered Payroll	6.900	7.150	7.044

For ORP participants, a total of $92,035 or 3.730% in 2001 was contributed to TRS from employer contributions to amortize past service unfunded liability in accordance with Title 19, chapter 21, MCA.

The amounts contributed to the plans during the years ended June 30, 1999, 2000, and 2001 were equal to the required contribution each year. The amounts contributed by the University and its employees were:

	PERS	TRS	OPR (TIAA-CREF)
FY99	$ 258,695	$ 349,837	$ 231,320
FY00	$ 263,972	$ 393,023	$ 261,632
FY01	$ 276,072	$ 356,707	$ 296,090

Note 6 – COMMITMENT AND CONTINGENT LIABILITIES

Capital Leases:
On May 12, 1997, the University entered into a capital lease agreement with Well Fargo Brokerage Services, LLC to finance the acquisition of a commercial lawn mower and floor scrubber. The lease requires five annual installments of $6,330 with interest accruing at 6.08%.

As of June 30, 2001, total annual principal and interest payments for capital leases are:

Year Ending June 30,	Principal	Interest	Total
2002	$5,967	$ 363	$6,330
Total	$5,967	$ 363	$6,330

Contracts and Notes Payable:
As of June 30, 2001, the University has the following outstanding balances on notes received from Montana State University-Northern Development Foundation:

- A $12,500 note payable with interest of 6.5% for purchase of a van for the athletic wrestling program. Annual payments of $2,495 are due starting October 1, 1999
- A $48,963 note payable with interest of 6.5% for the purchase of a voice mail system. Annual payments of $19,062 are due starting October 15, 2000.
- A $24,000 note payable with interest of 6.5% for the purchase of office equipment and carpeting for the student services area. Annual payments of $5,634 are due starting October 1, 2000.
- An $11,000 note payable with interest of 6.5% for the purchase of a van for the athletic volleyball program. Annual payments of $2,661 are due starting October 1, 2001.

The annual debt service requirements on the principal are as follows:

Year Ending June 30,	Payment Amount
2002	$25,008
2003	26,697
2004	9,371
2005	9,980
2006	2,499
Total	$73,555

As of June 30, 2001, the outstanding balance of Intercap notes payable consist of the following:

- Renovation of Gymnasium and Swimming Pool - $646,292 loan approved July 30, 1993 for the renovation of the gymnasium and swimming pool. The outstanding balance is $188,601.
- Science Lab Renovation - $362,355 loan for the Science Lab renovation was approved December 31, 1994. This loan will enhance the Water Quality-Environmental Science programs. The loan will be paid from the Resource Indemnity Trust Funds provided for in section 15-38-202, MCA. Effective July 1, 1994, section 15-38-202, MCA appropriated $240,000 to support the operations of the Water Quality-Environmental Science instructional programs at the University. The outstanding balance is $179,385.
- Energy Conservation - $444,733 loan approved October 31, 1996 for remodel of campus buildings to increase energy efficiency. The outstanding balance is $306,688.
- Parking Lot/Road Improvements - $167,835 loan was approved October 31, 1993 for campus road construction and parking lot/road improvements. The outstanding balance is $109,065.
- Electrical Loop - $181,610 loan was approved September 15, 2000 to upgrade primary electrical distribution for Auxiliary buildings. The outstanding balance is $173,879.

Future Intercap loan principle payments as of June 30, 2001 are as follows:

Year Ending June 30,	Payment Amount
2002	$ 178,852
2003	187,270
2004	156,863
2005	123,676
2006	114,277
2007-2011	196,682
Total	$ 957,620

Operating Leases:
Total rental payments for operating leases in fiscal year 2001 were $9,479. Scheduled rental payments for operating leases over the next five years for the University are $37,918.

Compensated Absences:
In accordance with FASB Statement No. 43 "Accounting for Compensated Absences," the liability and charge for compensated absences related to current and previous years are recorded in the unrestricted current funds. At June 30, 2001, the value of unused vacation, sick leave and related benefits accumulated by employees was $1,021,799. Compensated absences liability increased by $118,029 during fiscal year 2001 and by $47,552 during fiscal year 2000.

In accordance with GASB #16, estimated employer payments related incrementally to payroll are included in compensated absences.

Eligible employees may accumulate and carry to the following calendar year, two times the maximum number of vacation days earned annually. Unused vacation leave is purchased at full value from employees upon termination. Sick leave can be accumulated without limitation and unused sick leave earned since July 1, 1971 is purchased from all employees at twenty-five percent of its value upon termination.

Federal Income Tax:
Although the University is exempt from federal income tax as an instrumentality of the State of Montana, the Internal Revenue Service may consider certain income generated unrelated business income. The Montana University System files appropriate tax returns with the IRS to report such income.

Note 7 – AFFILIATED ORGANIZATIONS

Montana State University-Northern is a component unit of the State of Montana. These financial statements include only the activities, funds, and account of the University.

Private nonprofit organizations affiliated with the University include the Montana State University-Northern Development Foundation (including the Athletic Century Club and Alumni Association). The foundation operates exclusively for the purpose of encouraging, promoting, and supporting educational programs, research, scholarly pursuits and athletics at or in connection with the University.

During the fiscal year ending June 30, 2001, the foundation contributed to the University $182,615 for scholarships during fiscal year 2001 and $168,570 during fiscal year 2000. The foundation also contributed $238,851 for academic and instructional support during fiscal year 2001 and $231,677 during fiscal year 2000. In exchange, the University provided the foundation with office space and an annually contracted fee of $134,325 during both fiscal years 2001 and 2000; and the association with office space, staff, and some related office expenses. The University also paid miscellaneous expenses to the Foundation of $74,556 in fiscal year 2001 and $77,884 in fiscal year 2000.

Note 8 – SUBSEQUENT EVENTS

On July 1, 2001, the University entered into two five-year Lease/Purchase agreements with Cisco Systems for cable and equipment to update the phone systems and the network infrastructure for the campus. The total principal for these two contracts is $330,026.

On August 10, 2001, the University entered into a three-year capital lease with Gateway Companies for computer equipment. The total principal for this lease is $100,450.

University Response

MONTANA
STATE UNIVERSITY
BOZEMAN

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Telephone (406) 994-2341
Fax (406) 994-1893

March 7, 2002

Mr. Scott A. Seacat
Legislative Auditor
Legislative Audit Division
State Capitol, Room 135
P.O. Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

Enclosed you will find Montana State University's responses to the recommendations of our Fiscal Year End 2000/2001 Financial-Compliance Audit Report.

Montana State University would like to thank the Legislative Audit Division for their time in expressing concerns related to Montana State University. We feel this audit was productive and will be instrumental in continually improving the operating functions of all Montana State University campuses. We look forward to working with you again in the future.

Sincerely,

Geoffrey Gamble
President

GG/sm
Enclosure

MONTANA STATE UNIVERSITY
Response to Audit Recommendations
Fiscal Years 2000-2001

Recommendation #1:
We recommend the university implement additional collection procedures for accounts receivable at MSU- Bozeman

Response #1:
We concur, and have implemented additional procedures as noted in the finding.

Recommendation #2:
We recommend the university reconcile its student accounts receivable detail records to the general ledger account balance at MSU-Bozeman.

Response #2:
We concur. Effective June 30, 2001, the MSU Business Office has performed reconciliations between the general ledger and detail student account listing on a monthly basis.

Recommendation #3:
We recommend the university improve the timeliness of processing bills for grants and contracts accounts receivable on the MSU-Bozeman campus.

Response #3:
We concur. Grants and Contracts has placed MSU-Bozeman, as well as SCT Banner personnel on an aggressive timeline for the implementation of the Banner Grants Billing Module. The target date of implementation is the start of FY '03. We anticipate that our billing process will be much more efficient and that our sponsors will be billed in a timely manner.

Recommendation #4:

We recommend the university continue to strengthen internal control at cash collection points at MSU-Bozeman departments.

Response #4:

We concur, and will implement the Legislative Audit Division's suggested enhancements related to the central cashiering activity. Management and Internal Audit will continue to stress the importance of and evaluate the adequacy of controls over remittances.

Recommendation #5:

We recommend the university enforce deposit requirements at MSU-Bozeman departments.

Response #5:

We concur, and will stress to staff the importance of this procedure.

Recommendation #6:

We recommend the university enforce established procedures at MSU-Bozeman to ensure travel advances are reconciled with travel expense vouchers and cleared in a timely manner.

Response #6:

We concur. Diligent efforts will be made to ensure that travelers comply with applicable requirements.

Recommendation #7:

We recommend the university continue to document and implement an appropriate control system at MSU-Bozeman designed to ensure the timely and accurate recording of all plant fund activity on the accounting records and financial statements in accordance with state law.

Response # 7:

We concur. The University is continuing to improve the coordination and communication between the Treasurer and Controller at MSU-Bozeman and will formalize the procedures currently in place as well as the enhanced procedures as they are developed.

Recommendation # 8:

We recommend the university ensure appropriate personnel at MSU-Bozeman read the compliance report for its Perkins Loan Program and take appropriate action on any reported instances of non-compliance with federal regulations.

Response #8:

We concur. Appropriate University personnel will review the report and follow-up on findings.

Recommendation #9:

We recommend the university establish procedures at MSU-Billings to ensure suspected thefts are reported in a timely manner as required by law.

Response #9:

We concur. MSU-Billings has established procedures to ensure suspected thefts are reported to the Montana State University President, Legislative Audit Division and the Attorney General in a timely manner.

Recommendation 10:

We recommend the university establish procedures to ensure social security taxes are properly withheld from the wages of student employees at the MSU-Billings and MSU-Northern campuses.

Response #10:

We concur. Procedures have been established and will be followed. This will aid all campuses in ensuring correct application of the FICA exemption in the Banner system.

Recommendation #11:

We recommend the university continue to strengthen internal control over payroll at MSU-Northern campus to reduce the risk of error.

Response #11:

We concur. Duties are now segregated and controls are in place.

Recommendation #12:

We recommend the university establish procedures to ensure:

12a. MSU-Northern accurately accounts for equipment purchases on its property records.
12b. MSU-Bozeman performs a physical inventory over equipment in a timely manner.
12c. MSU-Billings and MSU-Northern campuses properly reduce library book valuations for books removed from circulation.
12d. MSU-Billing properly reduce its intangible asset valuation for obsolete software.

Response #12:

12a. We concur. MSU-Northern has obtained subsidiary ledgers for its fixed assets.

12b. We concur. MSU-Bozeman physical inventories will be conducted in a timely manner.

12c. We concur. MSU-Billings and MSU-Northern will use a methodology consistent with industry standards and the other units of the Montana University System to reduce library book valuation from circulation prior to fiscal year 2002 and subsequent years.

12d. We concur. MSU-Billings has developed a methodology to reduce its intangible asset valuation for obsolete software.

Recommendation #13:

We recommend the university establish procedures to ensure indirect cost recoveries are properly recorded by the MSU-Bozeman campus as required by law.

Response #13:

We concur. Procedures have been established to transfer the indirect cost income to the unrestricted area prior to being disbursed.